

FORM D

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0076  
Expires: May 31, 2005  
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hours per response.....16.00

FORM D

NOTICE OF SALE OF SECURITIES  
PURSUANT TO REGULATION D,  
SECTION 4(6), AND/OR  
UNIFORM LIMITED OFFERING EXEMPTION

SEC USE ONLY  
Prefix Serial  
DATE RECEIVED

Name of Offering (☐ check if this is an amendment and name has changed, and indicate change.)

IOTA Partners Limited Partnership

Filing Under (Check box(es) that apply): ☐ Rule 504 ☐ Rule 505 ☒ Rule 506 ☐ Section 4(6) ☐ ULOE

Type of Filing: ☒ New Filing ☐ Amendment

## A. BASIC IDENTIFICATION DATA

1. Enter the information requested about the issuer

Name of Issuer (☐ check if this is an amendment and name has changed, and indicate change.)

IOTA Partners Limited Partnership

Address of Executive Offices (Number and Street, City, State, Zip Code)

15600 N.E. 8th Street, B1-PMB 462, Bellevue, WA 98008

Telephone Number (Including Area Code)

(425) 641-2919

Address of Principal Business Operations (if different from Executive Offices) (Number and Street, City, State, Zip Code)

Telephone Number (Including Area Code)

Brief Description of Business

Underwater Salvage

Type of Business Organization

☐ corporation  
☐ business trust

☒ limited partnership, already formed  
☐ limited partnership, to be formed

☐ other (please specify):

Actual or Estimated Date of Incorporation or Organization: Month Year ☒ Actual ☐ Estimated  
11 08

Jurisdiction of Incorporation or Organization: (Enter two-letter U.S. Postal Service abbreviation for State:  
CN for Canada; FN for other foreign jurisdiction)

☐ ☐

## GENERAL INSTRUCTIONS

## Federal:

**Who Must File:** All issuers making an offering of securities in reliance on an exemption under Regulation D or Section 4(6), 17 CFR 230.501 et seq. or 15 U.S.C. 77d(6).

**When To File:** A notice must be filed no later than 15 days after the first sale of securities in the offering. A notice is deemed filed with the U.S. Securities and Exchange Commission (SEC) on the earlier of the date it is received by the SEC at the address given below or, if received at that address after the date on which it is due, on the date it was mailed by United States registered or certified mail to that address.

**Where To File:** U.S. Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

**Copies Required:** Five (5) copies of this notice must be filed with the SEC, one of which must be manually signed. Any copies not manually signed must be photocopies of the manually signed copy or bear typed or printed signatures.

**Information Required:** A new filing must contain all information requested. Amendments need only report the name of the issuer and offering, any changes thereto, the information requested in Part C, and any material changes from the information previously supplied in Parts A and B. Part E and the Appendix need not be filed with the SEC.

**Filing Fee:** There is no federal filing fee.

## State:

This notice shall be used to indicate reliance on the Uniform Limited Offering Exemption (ULOE) for sales of securities in those states that have adopted ULOE and that have adopted this form. Issuers relying on ULOE must file a separate notice with the Securities Administrator in each state where sales are to be, or have been made. If a state requires the payment of a fee as a precondition to the claim for the exemption, a fee in the proper amount shall accompany this form. This notice shall be filed in the appropriate states in accordance with state law. The Appendix to the notice constitutes a part of this notice and must be completed.

## ATTENTION

Failure to file notice in the appropriate states will not result in a loss of the federal exemption. Conversely, failure to file the appropriate federal notice will not result in a loss of an available state exemption unless such exemption is predicated on the filing of a federal notice.

SEC 1972 (6-02)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

1 of 9

## 2. Enter the information requested for the following:

- Each promoter of the issuer, if the issuer has been organized within the past five years;
- Each beneficial owner having the power to vote or dispose, or direct the vote or disposition of, 10% or more of a class of equity securities of the issuer.
- Each executive officer and director of corporate issuers and of corporate general and managing partners of partnership issuers; and
- Each general and managing partner of partnership issuers.

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☒ Executive Officer ☒ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Jack Harbeston, President of HFP, Inc., General Partner

Business or Residence Address (Number and Street, City, State, Zip Code)

15600 N.E. 8th St., B1-PMB 462, Bellevue, WA 98008

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☒ Executive Officer ☐ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Edris Harbeston, Secretary of HFP, Inc., General Partner

Business or Residence Address (Number and Street, City, State, Zip Code)

15600 N.E. 8th St., B1-PMB 462, Bellevue, WA 98008

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☐ Executive Officer ☐ Director ☒ General and/or Managing Partner

Full Name (Last name first, if individual)

HFP, Inc., General Partner

Business or Residence Address (Number and Street, City, State, Zip Code)

15600 N.E. 8th St., B1-PMB 462, Bellevue, WA 98008

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☐ Executive Officer ☐ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☐ Executive Officer ☐ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☐ Executive Officer ☐ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Check Box(es) that Apply: ☐ Promoter ☐ Beneficial Owner ☐ Executive Officer ☐ Director ☐ General and/or Managing Partner

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

(Use blank sheet, or copy and use additional copies of this sheet, as necessary)

1. Has the issuer sold, or does the issuer intend to sell, to non-accredited investors in this offering? ..... ☐ Yes ☒ No  
 Answer also in Appendix, Column 2, if filing under ULOE.
2. What is the minimum investment that will be accepted from any individual? ..... \$ 5,000  
 Yes ☒ No ☐
3. Does the offering permit joint ownership of a single unit? ..... ☒ Yes ☐ No
4. Enter the information requested for each person who has been or will be paid or given, directly or indirectly, any commission or similar remuneration for solicitation of purchasers in connection with sales of securities in the offering. If a person to be listed is an associated person or agent of a broker or dealer registered with the SEC and/or with a state or states, list the name of the broker or dealer. If more than five (5) persons to be listed are associated persons of such a broker or dealer, you may set forth the information for that broker or dealer only.

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) ..... ☐ All States

AL	AK	AZ	AR	CA	CO	CT	DE	DC	FL	GA	HI	ID
IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO
MT	NE	NV	NH	NJ	NM	NY	NC	ND	OH	OK	OR	PA
RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY	PR

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) ..... ☐ All States

AL	AK	AZ	AR	CA	CO	CT	DE	DC	FL	GA	HI	ID
IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO
MT	NE	NV	NH	NJ	NM	NY	NC	ND	OH	OK	OR	PA
RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY	PR

Full Name (Last name first, if individual)

Business or Residence Address (Number and Street, City, State, Zip Code)

Name of Associated Broker or Dealer

States in Which Person Listed Has Solicited or Intends to Solicit Purchasers

(Check "All States" or check individual States) ..... ☐ All States

AL	AK	AZ	AR	CA	CO	CT	DE	DC	FL	GA	HI	ID
IL	IN	IA	KS	KY	LA	ME	MD	MA	MI	MN	MS	MO
MT	NE	NV	NH	NJ	NM	NY	NC	ND	OH	OK	OR	PA
RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY	PR

(Use blank sheet, or copy and use additional copies of this sheet, as necessary.)

1. Enter the aggregate offering price of securities included in this offering and the total amount already sold. Enter "0" if the answer is "none" or "zero." If the transaction is an exchange offering, check this box ☐ and indicate in the columns below the amounts of the securities offered for exchange and already exchanged.

Type of Security	Aggregate Offering Price	Amount Already Sold
Debt .....	\$ 1,330,000	\$ 0
Equity .....	\$	\$
<input type="checkbox"/> Common <input type="checkbox"/> Preferred		
Convertible Securities (including warrants) .....	\$	\$
Partnership Interests .....	\$	\$
Other (Specify .....) .....	\$	\$
Total .....	\$ 1,330,000	\$ 0

Answer also in Appendix, Column 3, if filing under ULOE.

2. Enter the number of accredited and non-accredited investors who have purchased securities in this offering and the aggregate dollar amounts of their purchases. For offerings under Rule 504, indicate the number of persons who have purchased securities and the aggregate dollar amount of their purchases on the total lines. Enter "0" if answer is "none" or "zero."

	Number Investors	Aggregate Dollar Amount of Purchases
Accredited Investors .....	0	\$ 0
Non-accredited Investors .....	0	\$ 0
Total (for filings under Rule 504 only) .....	0	\$ 0

Answer also in Appendix, Column 4, if filing under ULOE.

3. If this filing is for an offering under Rule 504 or 505, enter the information requested for all securities sold by the issuer, to date, in offerings of the types indicated, in the twelve (12) months prior to the first sale of securities in this offering. Classify securities by type listed in Part C — Question 1.

Type of Offering	Type of Security	Dollar Amount Sold
Rule 505 .....	0	\$ 0
Regulation A .....	0	\$ 0
Rule 504 .....	0	\$ 0
Total .....	0	\$ 0

4. a. Furnish a statement of all expenses in connection with the issuance and distribution of the securities in this offering. Exclude amounts relating solely to organization expenses of the insurer. The information may be given as subject to future contingencies. If the amount of an expenditure is not known, furnish an estimate and check the box to the left of the estimate.

Transfer Agent's Fees .....	<input checked="" type="checkbox"/>	\$ 0
Printing and Engraving Costs .....	<input checked="" type="checkbox"/>	\$ 2,500
Legal Fees .....	<input checked="" type="checkbox"/>	\$ 8,000
Accounting Fees .....	<input checked="" type="checkbox"/>	\$ 0
Engineering Fees .....	<input checked="" type="checkbox"/>	\$ 0
Sales Commissions (specify finders' fees separately) .....	<input checked="" type="checkbox"/>	\$ 0
Other Expenses (identify) <u>Blue Sky Fees and Costs</u> .....	<input checked="" type="checkbox"/>	\$ 4,500
Total .....	<input checked="" type="checkbox"/>	\$ 15,000

## C. OFFERING PRICE, NUMBER OF INVESTORS, EXPENSES AND USE OF PROCEEDS

b. Enter the difference between the aggregate offering price given in response to Part C-Question 1 and total expenses furnished in response to Part C-Question 4.a. This difference is the "adjusted gross proceeds to the issuer." .....


\$1,315,000

5. Indicate below the amount of the adjusted gross proceeds to the issuer used or proposed to be used for each of the purposes shown. If the amount for any purpose is not known, furnish an estimate and check the box to the left of the estimate. The total of the payments listed must equal the adjusted gross proceeds to the issuer set forth in response to Part C-Question 4.b. above.

		Payments to Officers, Directors, & Affiliates	Payments To Others
Salaries and fees .....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Purchase of real estate. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Purchase, rental or leasing and installation of machinery and equipment. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Construction or leasing of plant buildings and facilities. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Acquisition of other businesses (including the value of securities involved in this offering that may be used in exchange for the assets or securities of another issuer pursuant to a merger. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Repayment of indebtedness. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
Working capital. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 1,315,000
Other (specify) .....	<input checked="" type="checkbox"/>	\$ 0	\$ 0
.....	<input type="checkbox"/>	\$ .....	\$ 0
.....	<input type="checkbox"/>	\$ .....	\$ .....
Column Totals. ....	<input checked="" type="checkbox"/>	\$ 0	\$ 1,315,000
Total Payments Listed (column totals added) .....			<input checked="" type="checkbox"/> \$ 1,315,000

## D. FEDERAL SIGNATURE

The issuer has duly caused this notice to be signed by the undersigned duly authorized person. If this notice is filed under Rule 505, the following signature constitutes an undertaking by the issuer to furnish to the U.S. Securities and Exchange Commission, upon written request of its staff, the information furnished by the issuer to any non-accredited investor pursuant to paragraph (b) (2) of Rule 502.

Issuer (Print or Type) IOTA Partners Limited Partnership	Signature 	Date July 14, 2004
Name of Signer (Print or Type) Jack Harbeston	Title of Signer (Print or Type) President of HFP, Inc., General Partner	

## ATTENTION

Intentional misstatements or omissions of fact constitute federal criminal violations. (See 18 U.S.C. 1001.)


## E. STATE SIGNATURE

1. Is any party described in 17 CFR 230.252 (c), (d), (e) or (f) presently subject to any of the disqualification provisions of such rule? . . . . . Yes ☐ No ☒

See Appendix, Column 5, for state response.

2. The undersigned issuer hereby undertakes to furnish to any state administrator of any state in which this notice is filed, a notice on Form D (17 CFR 239.500) at such times as required by state law.
3. The undersigned issuer hereby undertakes to furnish to the state administrators, upon written request, information furnished by the issuer to offerees.
4. The undersigned issuer represents that the issuer is familiar with the conditions that must be satisfied to be entitled to the Uniform Limited Offering Exemption (ULOE) of the state in which this notice is filed and understands that the issuer claiming the availability of this exemption has the burden of establishing that these conditions have been satisfied.

The issuer has read this notification and knows the contents to be true and has duly caused this notice to be signed on its behalf by the undersigned duly authorized person.

Issuer (Print or Type) IOTA Partners Limited Partnership	Signature 	Date July 14, 2004
Name of Signer (Print or Type) Jack Harbeston	Title of Signer (Print or Type) President of HFP, Inc., General Partner	

*Instruction:*

Print the name and title of the signing representative under his signature for the state portion of this form. One copy of every notice on Form D must be manually signed. Any copies not manually signed must be photocopies of the manually signed copy or bear typed or printed signatures.

# APPENDIX

1	2		3	4				5	
	Intend to sell to non-accredited investors in State. (Part B-Item 1)		Type of security and aggregate offering price offered in state (Part C-Item 1)	Type of investor and amount purchased in State (Part C-Item 2)				Disqualification under State ULOE (if yes, attach explanation of waiver granted) (Part E-Item 1)	
State	Yes	No		Number of Accredited Investors	Amount	Number of Non-Accredited Investors	Amount	Yes	No
AL									
AK									
AZ									
AR									
CA		X	Debt						X
CO									
CT		X	Debt						X
DE									
DC									
FL		X	Debt						X
GA									
HI									
ID									
IL		X	Debt						X
IN									
IA		X	Debt						X
KS									
KY									
LA									
ME									
MD									
MA									
MI									
MN									
MS									

**APPENDIX**

1  State	2  Intend to sell to non-accredited investors in State (Part B-Item 1)		3  Type of security and aggregate offering price offered in state (Part C-Item 1)	4  Type of investor and amount purchased in State (Part C-Item 2)				5  Disqualification under State ULOE (if yes, attach explanation of waiver granted) (Part E-Item 1)	
	Yes	No		Number of Accredited Investors	Amount	Number of Non-Accredited Investors	Amount	Yes	No
MO		X	Debt						X
MT									
NE									
NV									
NH									
NJ		X	Debt						X
NM									
NY		X	Debt						X
NC									
ND									
OH									
OK									
OR									
PA									
RI									
SC									
SD									
TN									
TX									
UT									
VT									
VA									
WA		X	Debt						X
WV									
WI		X	Debt						X



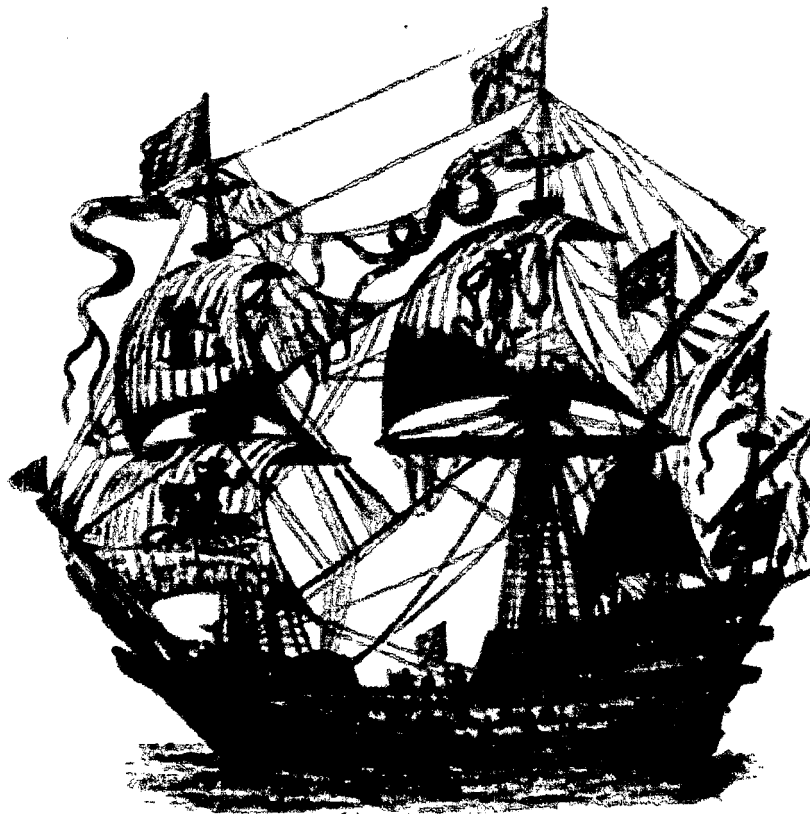
**APPENDIX**

1	2		3	4				5	
	Intend to sell to non-accredited investors in State (Part B-Item 1)		Type of security and aggregate offering price offered in state (Part C-Item 1)	Type of investor and amount purchased in State (Part C-Item 2)				Disqualification under State ULOE (if yes, attach explanation of waiver granted) (Part E-Item 1)	
State	Yes	No		Number of Accredited Investors	Amount	Number of Non-Accredited Investors	Amount	Yes	No
WY									
PR									

**PRIVATE PLACEMENT MEMORANDUM**

**TO EXCAVATE THE STERN CASTLE**

**OF THE SANTA MARGARITA**



**IOTA Partners**  
[www.iotapartners.com](http://www.iotapartners.com)

**PRIVATE PLACEMENT MEMORANDUM  
OF NON-RECOURSE NOTES AND PARTICIPATION RIGHTS**

COPY NO. \_\_\_\_\_ FOR THE USE OF \_\_\_\_\_ DATE \_\_\_\_\_

**IOTA PARTNERS LIMITED PARTNERSHIP ("IOTA")  
(An Idaho Limited Partnership)**

**266 Units Consisting of 266 Non-Recourse Notes at \$5,000 Per Non-Recourse Note and  
266 Participation Rights Units, February 5, 2004**

THERE IS NO PUBLIC MARKET OR OTHER MARKET FOR THE UNITS, NOR IS IT LIKELY ANY SUCH MARKET WILL DEVELOP. MOREOVER, BECAUSE THESE UNITS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ARE BEING SOLD IN RELIANCE UPON SECTION 4(2) THEREOF AND REGULATION D THEREUNDER, AND THE UNITS ARE SUBJECT TO RESTRICTIONS OF TRANSFERABILITY AND SALE, AN INVESTOR WILL BE REQUIRED TO RETAIN OWNERSHIP OF THE UNITS AND BEAR THE ECONOMIC RISK OF HIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE UNITS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, AND SUCH REGULATORY AUTHORITIES HAVE NOT REVIEWED THIS MEMORANDUM TO DETERMINE WHETHER IT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE INVESTMENT DESCRIBED HEREIN INVOLVES A SIGNIFICANT DEGREE OF RISK AND SHOULD BE CONSIDERED ONLY BY PERSONS WHO CAN AFFORD TO SUSTAIN A TOTAL LOSS OF THEIR INVESTMENT. SEE "RISK FACTORS." EACH INVESTOR WILL BE REQUIRED TO REPRESENT THAT HE IS FAMILIAR WITH AND UNDERSTANDS THE TERMS AND THE RISK OF THIS OFFERING.

	<u>Price</u>	<u>Commission (1)</u>	<u>Proceeds to Partnership (2)</u>
Investment per Unit (Consisting of a Non-Recourse Note in the face amount of \$5,000 and a Participation Rights Unit)	\$ 5,000	—	\$ 5,000
Total maximum offering: (266 Units at \$5,000 per Unit)(3)	\$1,330,000	—	\$1,330,000
Total minimum offering: (150 Units at \$5,000 per Unit)(3):	\$ 750,000	—	\$ 750,000

- (1) IOTA, its General Partner, or their employees will not receive any commission or other remuneration for sale of the Units. IOTA reserves the right to pay commissions to broker/dealers and finder's fees to individuals in connection with the sale of the Units. See "THE OFFERING."
- (2) Before deducting legal expenses, printing costs and miscellaneous expenses for the offering estimated at \$15,000.
- (3) All Units are being offered on a "best efforts" basis. There is no firm commitment by any person to purchase any Units and there is no assurance or guarantee any Units will be sold.

IOTA PARTNERS LIMITED PARTNERSHIP  
HFP, Inc., General Partner  
15600 N.E. 8<sup>th</sup> Street, B1-PMB 462  
Bellevue, WA 98008  
(425) 641-2919  
Fax: (425) 644-6990  
email: [iota88@aol.com](mailto:iota88@aol.com)

THIS MEMORANDUM CONSTITUTES AN OFFER ONLY IF THE NAME OF THE OFFEREE APPEARS IN THE APPROPRIATE SPACE PROVIDED ON THE PRECEDING PAGE. ANY REPRODUCTION OF THIS MEMORANDUM IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE GENERAL PARTNER, IS PROHIBITED.

AT ANY TIME PRIOR TO THE CONSUMMATION OF A SALE OF THE UNITS, THE GENERAL PARTNER AND ITS AGENTS WILL RESPOND TO QUESTIONS FROM THE OFFEREE AND ITS REPRESENTATIVES REGARDING THE TERMS AND CONDITIONS OF THIS OFFERING OR ANY OTHER MATTERS SET FORTH HEREIN, AND UPON REQUEST OF THE OFFEREE WILL SUPPLY ADDITIONAL INFORMATION TO VERIFY THE ACCURACY OF THE INFORMATION SET FORTH HEREIN, TO THE EXTENT THAT THE GENERAL PARTNER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM OR ANY COMMUNICATION FROM THE GENERAL PARTNER AS BUSINESS, LEGAL OR TAX ADVICE. NO REPRESENTATION OR WARRANTY OF ANY KIND IS MADE OR SHOULD BE INFERRED WITH RESPECT TO THE ECONOMIC OR TAX ADVANTAGES WHICH MAY ACCRUE TO AN INVESTOR, AND THERE CAN BE NO ASSURANCE OR GUARANTY THAT EXISTING LAWS WILL NOT BE CHANGED OR INTERPRETED IN SUCH A MANNER AS TO DENY AN INVESTOR SOME OR ALL OF THE BENEFITS DESCRIBED HEREIN. EACH INVESTOR SHOULD CONSULT HIS OWN LEGAL COUNSEL, ACCOUNTANT OR BUSINESS ADVISOR AS TO LEGAL, TAX AND RELATED MATTERS CONCERNING HIS INVESTMENT.

NO OFFERING LITERATURE OR ADVERTISING IN ANY FORM WILL OR MAY BE UTILIZED IN THE OFFERING OF THE UNITS, EXCEPT FOR THIS MEMORANDUM. NO PERSON OTHER THAN THE GENERAL PARTNER AND PERSONS AUTHORIZED TO ACT IN ITS BEHALF IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS MEMORANDUM, AND ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALES MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE MATTERS DISCUSSED HEREIN SINCE THE DATE HEREOF. THIS MEMORANDUM HAS BEEN PREPARED SOLELY FOR THE BENEFIT OF THE PERSONS TO WHOM THE UNITS ARE BEING OFFERED AND MAY NOT BE REPRODUCED OR USED FOR ANY OTHER PURPOSE.

THE OFFERING CAN BE WITHDRAWN AND TERMINATED AT ANY TIME BEFORE CLOSING AND IS SPECIFICALLY MADE SUBJECT TO THE CONDITIONS DESCRIBED IN THIS MEMORANDUM. THE GENERAL PARTNER RESERVES THE RIGHT, FOR SUCH REASONS AS IT MAY FIND IN GOOD FAITH, TO DECLINE TO SELL UNITS TO ANY PROSPECTIVE INVESTOR.

THE OFFEREE, BY ACCEPTING DELIVERY OF THIS MEMORANDUM, AGREES TO RETURN THIS MEMORANDUM TO THE GENERAL PARTNER IF (i) THE OFFEREE DOES NOT SUBSCRIBE TO THE UNITS, OR (ii) THE PLACEMENT IS TERMINATED PRIOR TO ACCEPTANCE OF THE OFFEREE'S SUBSCRIPTION. DELIVERY OF THE PURCHASE PRICE FOR THE UNITS AND THE SUBSCRIPTION DOCUMENTS DESCRIBED IN "SUBSCRIPTION PROCEDURE" SHALL CONSTITUTE AN IRREVOCABLE OFFER BY THE INVESTOR TO PURCHASE THAT NUMBER OF UNITS INDICATED.

ALL PAYMENTS FOR THE MINIMUM NUMBER OF UNITS OFFERED HEREBY WILL BE HELD IN ESCROW BY IOTA UNTIL SUCH TIME AS THE MINIMUM NUMBER OF UNITS OFFERED HEREBY HAVE BEN SOLD. IN THE EVENT IOTA DOES NOT SELL THE MINIMUM NUMBER OF UNITS OFFERED HEREBY BEFORE TERMINATION OF THIS OFFERING, SUCH PAYMENTS WILL BE RETURNED TO THE INVESTORS.

INVESTMENT IN THE UNITS MAY NOT BE SUITABLE FOR INVESTORS WHOSE ANNUAL INCOME IS NOT, AND IS NOT EXPECTED TO REMAIN, AT A MINIMUM LEVEL, OR WHO DO NOT MEET CERTAIN NET WORTH AND OTHER REQUIREMENTS OR WHO CANNOT AFFORD A NON-LIQUID, SPECULATIVE INVESTMENT. SEE "RISK FACTORS", "INVESTOR QUALIFICATIONS" AND "SUMMARY OF CERTAIN TAX RISKS AND ASPECTS."

THIS MEMORANDUM CONTAINS SUMMARIES BELIEVED TO ACCURATELY REPRESENT THE TERMS OF CERTAIN DOCUMENTS, BUT REFERENCE IS HEREBY MADE TO THE ACTUAL DOCUMENTS (COPIES OF WHICH ACCOMPANY THIS MEMORANDUM OR

ARE AVAILABLE AT THE OFFICE OF IOTA) FOR COMPLETE INFORMATION CONCERNING THE RIGHTS AND OBLIGATIONS OF THE PARTIES THERETO. ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THIS REFERENCE.

**FOR RESIDENTS OF ALL STATES AND THE COMMONWEALTH OF THE NORTHERN MARIANAS ISLANDS ("CNMI"):** THE UNITS OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF THE VARIOUS STATES OR THE CNMI, AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE SHARES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTIONS THEREFROM. THE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, THE CNMI GOVERNMENT, ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FOR RESIDENTS OF ALL STATES:** THE UNITS OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF THE VARIOUS STATES, AND ARE BEING OFFERED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SAID ACT AND SUCH LAWS. THE UNITS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER SAID ACT AND SUCH LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE UNITS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FOR CONNECTICUT RESIDENTS:** THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSION OF THE STATE OF CONNECTICUT NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

**FOR FLORIDA RESIDENTS:** THE SECURITIES REFERRED TO HEREIN WILL BE SOLD TO, AND ACQUIRED BY, THE HOLDER IN A TRANSACTION EXEMPT UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER SAID ACT IN THE STATE OF FLORIDA. IN ADDITION, ALL FLORIDA RESIDENTS SHALL HAVE THE PRIVILEGE OF VOIDING THE PURCHASE WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER, AN AGENT OF THE ISSUER, OR AN ESCROW AGENT, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH PURCHASER, WHICHEVER OCCURS LATER.

**FOR MISSISSIPPI RESIDENTS:** THESE SECURITIES ARE OFFERED PURSUANT TO A CERTIFICATE OF REGISTRATION ISSUED BY THE SECRETARY OF STATE OF MISSISSIPPI PURSUANT TO RULE 477, WHICH PROVIDES A LIMITED REGISTRATION PROCEDURE FOR CERTAIN OFFERINGS. THE SECRETARY OF STATE OF MISSISSIPPI DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF ANY SECURITIES, NOR DOES THE SECRETARY OF STATE PASS UPON THE TRUTH, MERITS, OR COMPLETENESS OF ANY OFFERING MEMORANDUM FILED WITH THE SECRETARY OF STATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**FOR NORTH CAROLINA RESIDENTS:** THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER THE NORTH CAROLINA SECURITIES ACT. THE NORTH CAROLINA SECURITIES ADMINISTRATOR NEITHER RECOMMENDS NOR ENDORSES THE PURCHASE OF ANY SECURITY, NOR HAS THE ADMINISTRATOR PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION PROVIDED HEREIN. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**FOR WASHINGTON RESIDENTS:** THE WASHINGTON ADMINISTRATOR OF SECURITIES HAS NOT REVIEWED OR RECOMMENDED THIS OFFERING OR THIS OFFERING MEMORANDUM, AND THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF WASHINGTON, CHAPTER 21.20, AND THEREFORE CANNOT BE RESOLD

UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OF 1933 AND THE SECURITIES ACT OF WASHINGTON CHAPTER 21.20, UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE TO SELL THE UNITS IN ANY JURISDICTION IN WHICH AN OFFER OR SALE IS PROHIBITED BY LAW OR GOVERNMENT APPROVAL OF SUCH OFFER OR SALE, IF REQUIRED, HAS NOT BEEN GIVEN OR IS NOT AVAILABLE. IN THIS REGARD, WITHOUT PRIOR APPROVAL OR FILING WITH THE RESPECTIVE STATE SECURITIES REGULATORY AUTHORITY, THE UNITS MAY NOT BE SOLD TO RESIDENTS OF ALABAMA, ARKANSAS, CONNECTICUT, GEORGIA, IDAHO, INDIANA, LOUISIANA, MAINE, MISSISSIPPI, MASSACHUSETTS, MONTANA, NEW HAMPSHIRE, NEW MEXICO, NEW YORK, NORTH CAROLINA, NORTH DAKOTA, RHODE ISLAND, SOUTH CAROLINA, VERMONT, WASHINGTON OR WISCONSIN. THERE CAN BE NO ASSURANCE THE SECURITIES REGULATORY AUTHORITIES OF SUCH STATES WILL ALLOW THE UNITS TO BE SOLD IN THEIR RESPECTIVE STATES. IN ANY EVENT, THE UNITS CANNOT BE SOLD TO RESIDENTS OF ALASKA, HAWAII, OREGON, PENNSYLVANIA, SOUTH DAKOTA AND WYOMING.

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## EXHIBITS

- EXHIBIT A:** Form of Non-Recourse Note
- EXHIBIT B:** Form of Participation Rights Agreement
- EXHIBIT C:** Opinions of Consulting Experts re: Treasure Location on Ship
- EXHIBIT D:** Financial Statements of IOTA as of December 31, 2002
- EXHIBIT E:** Pro forma Return Projections
- EXHIBIT F:** Types of Artifacts on the Santa Margarita
- EXHIBIT G:** Subscription Documents

In addition, the following documents are available upon request to Jack Harbeston, IOTA Partners Limited Partnership, 15600 N.E. 8<sup>th</sup> Street, B1-PMB 462, Bellevue, Washington, 98008, (425) 641-2919, or by fax at (425) 644-6990 or e-mail at [iota88@aol.com](mailto:iota88@aol.com):

Agreement of Limited Partnership of IOTA Partners Limited Partnership, with First Amendment, Second Amendment and Third Amendment

Net Proceeds Unit Agreement

Financing Agreement between IOTA and Santa Margarita Recovery Company, L.L.C.

\*Financing Agreement between IOTA and Rota Recovery Company, L.L.C.



## SUMMARY OF THE MEMORANDUM

THIS SUMMARY IS SUBJECT IN ALL RESPECTS TO MORE COMPLETE INFORMATION CONTAINED IN THIS MEMORANDUM AND IS QUALIFIED IN ITS ENTIRETY BY THE EXHIBITS ATTACHED HERETO AND OTHER INFORMATION MADE AVAILABLE TO INVESTORS.

### **IOTA Partners Limited Partnership**

IOTA was formed as an Idaho Limited Partnership on October 21, 1988. The original purpose of IOTA was to prove the interests and rights of Sea Search/Armada and its affiliates in a Spanish galleon sunk off the coast of Colombia. During formation of IOTA, it became apparent that efforts should be made to reduce financial risks to investors through a process of diversification and expansion. Rather than rely on only one project for return on investment, IOTA adopted a global approach oriented to researching, locating, and recovering valuable shipwrecks from areas other than Colombia. To date, IOTA's research has identified approximately 70 shipwrecks of European registry in diverse geographical areas. The aggregate value of the shipwrecks is estimated to be in the range of \$5 to \$15 billion. One such shipwreck is the Santa Margarita.

### **Summary of the Project**

The Santa Margarita is a Manila Galleon sunk in 1601 off the coast of Rota, one of the Northern Mariana Islands located in the Pacific Ocean near Guam (the "Project"). The Santa Margarita was located by IOTA in June, 1995 after years of historical research and oceanographic surveys. IOTA was granted the exclusive rights to search and salvage shipwrecks within the jurisdictional boundaries of the Commonwealth of the Northern Mariana Islands ("CNMI") pursuant to the terms of an agreement between the CNMI and IOTA dated April 12, 1993. A new agreement between IOTA and the CNMI government was executed on September 15, 1997, and further extended in 2002 (the "CNMI Agreement"). The CNMI Agreement, as extended, grants the exclusive right to salvage the Santa Margarita, eliminates previous government interference, and provides that the net proceeds from the sale of recovered artifacts will be allocated 75% to IOTA and 25% to the CNMI. IOTA is required to bear all expenses related to the Project.

The recovery, inventory, and marketing of the artifacts recovered from the Santa Margarita will be conducted by IOTA, in part, using the funds provided by the sale of the Units offered hereby. Each Investor will, upon purchase of a Unit, loan \$5,000 to IOTA on a non-recourse basis, and will receive in exchange a non-recourse note ("Non-Recourse Note") entitling the Investor to 17% interest for the first 2 years and 10% thereafter (the "Loan"). Under the terms of the Non-Recourse Note, the Loan will be repaid only out of the initial proceeds from the Project. In addition, each investor in the Units will receive a priority payment of the profits derived from the Project by IOTA equal to twice the principal sum of the Non-Recourse Note, and for each \$5,000 loaned to IOTA, 0.16% per Unit of the profits derived by IOTA from the Project until IOTA receives an aggregate of \$50,000,000 in gross revenues derived from the Project, and thereafter 0.08% per Unit of the profits derived by IOTA from the Project (the "Participation Rights"). IOTA sold 114 Units in a separate offering in 2003. If all the Units offered hereby are sold, the Units offered hereby and the Units sold in 2003 will represent 60.8% of the profits derived by IOTA from the Project until IOTA receives an aggregate \$50,000 in gross revenues, and thereafter 30.4% of the profits derived by IOTA from the Project. See "DESCRIPTION OF UNITS".

The final year of excavation and recovery of artifacts from the Santa Margarita is planned to begin in April, 2004, and to be completed October, 2004. It is anticipated that the marketing of artifacts from the Santa Margarita will begin in 2005. Notwithstanding the foregoing, there can be no assurance that this schedule can be met. (See "RISK FACTORS")

### **Summary of Offering**

IOTA is offering a maximum of 266 and a minimum of 150 Units, each Unit consisting of a Loan and Participation Rights Unit for a purchase price of \$ 5,000 per Unit. All subscription documents and checks delivered to IOTA for the purchase of the minimum number of Units offered hereby will be held until the minimum number of Units offered hereby have been sold or termination of this offering. In the event the minimum number of Units offered hereby have not been sold prior to termination of this offering, all checks for payment of the Shares

shall be returned to the subscribers. The minimum purchase permitted is 1 Unit provided the General Partner of IOTA may permit the purchase of a partial Unit if the General Partner deems it to be in the best interest of IOTA. See "DESCRIPTION OF UNITS".

### **Use of Proceeds**

The proceeds from this offering are anticipated to provide working capital for the Project for 2 years in the event all of the Units offered hereby are sold. The General Partner has estimated that a minimum of approximately \$750,000 will be required, assuming no unforeseen adverse conditions, for the salvage of the Santa Margarita. It is anticipated that to complete the Project, including restoration of the salvage site and other obligations of IOTA, approximately \$1,330,000 will be required, assuming no unforeseen adverse conditions. See "USE OF PROCEEDS". It is anticipated that all of the funds required for completing the salvage of the Santa Margarita will be provided by this offering. Investors should bear in mind that it is possible additional funds will be required to complete the Project. It is anticipated, although not assured, that traditional financing will be available for the marketing stages of the Project utilizing the artifacts recovered from the Santa Margarita as collateral. However, there is no assurance IOTA will be successful in obtaining such financing.

### **Management**

The General Partner of IOTA is HFP, Inc., a Washington corporation. Jack Harbeston is the president and sole shareholder of HFP, Inc., the Manager of Rota Recovery Company, L.L.C., a Washington limited liability company ("Rota") and the Manager of Santa Margarita Recovery Company, a Washington limited liability company ("SMRC"). Mr. Harbeston receives no compensation from Rota or SMRC, but is reimbursed for out of pocket expenses incurred on behalf of these companies. By terms of the IOTA Partners Limited Partnership Agreement dated October 21, 1988, as amended (the "Partnership Agreement"), Mr. Harbeston (through HFP, Inc., the General Partner) is to receive a salary of \$120,000 per year, but in 1993 he volunteered to reduce his salary to \$90,000 per year and to carry any unpaid amounts of the reduced salary as an IOTA payable. Mr. Harbeston's salary has not been paid in full in cash for any year since IOTA was organized in October 1988, and he has received no salary whatsoever for 2001, 2002 and 2003. His unpaid salary has accrued as a payable to the approximate amount of \$800,000 over the past 14 years. Of this amount, \$350,000 was converted to a contingent deferred salary, leaving approximately \$450,000 to be paid out of the initial proceeds from the Project. This accrued salary will be paid as an expense of the Project prior to the distribution of any profits derived from the Project, including distribution to Rota, SMRC, or IOTA, and thus the investors in the Units. Mr. Harbeston owns, directly and beneficially, 26.1 IOTA Units of Limited Partnership Interest (representing a 8.25% interest in IOTA), a 1.6% interest in Rota, and a 1.1% interest in SMRC, and also benefits from HFP, Inc. owning a 25% interest in IOTA. See also "COMPENSATION OF MANAGEMENT" and Exhibit E.

Mr. Harbeston possesses 29 years of experience in contract research and management consultation to various government and private businesses; he has been the driving force for IOTA over the past 16 years. IOTA also maintains relationships with leading consultants in the areas of archival research, salvage planning and management, oceanographic surveys, archeology and museum displays and management.

Certain conflicts of interest may arise between the General Partner, Jack Harbeston, IOTA and its affiliates, Rota and SMRC. Jack Harbeston and the General Partner are, however, under a fiduciary duty to conduct the business of IOTA in the best interest of IOTA and its Limited Partners and must exercise good faith and integrity in conducting its affairs.

### **Summary Information**

Potential investors are advised to refer to specific Sections for more complete information on the selected items contained in the above Summary of the Memorandum.

### **INVESTOR SUITABILITY STANDARDS**

Because of the illiquidity of an investment in the Units and the uncertain amount of cash flow or income which can be anticipated from the investment, this offering is limited solely to investors who have adequate net worth and taxable income, and should be purchased by

persons solely for long-term investment purposes. Accordingly, this private placement is being made to a limited number of investors who acknowledge and agree that they are acquiring the Units offered hereby for their own account, for investment purposes only and without a view to resell or otherwise dispose thereof, and who satisfy the General Partner that they meet certain Suitability Standards established under various securities laws in those jurisdictions where the Units may be offered. The Suitability Standards described by the General Partner to be met by a prospective investor before the investor will be allowed to purchase any of the Units offered include the following, and each investor will be required to acknowledge in writing that each such condition is met:

1. He is an "Accredited Investor" as defined in regulation D promulgated pursuant to the Securities Act of 1933 ("the Act"), or his net worth, or the net worth of the investor and his spouse, is 10 times or more than his investment in the Units (a resident of Maine, Minnesota, New Hampshire, Wisconsin and Washington is also required to have a minimum net worth of \$50,000, \$30,000, \$125,000, \$45,000, and \$25,000, respectively), exclusive of home, furnishings and automobiles, and the investor, or the investor and his spouse, has sufficient income to provide for living expenses (a resident, alone or with his spouse, of Maine, Minnesota, New Hampshire, Wisconsin and Washington is required to have a minimum income in the current year, and expected income in the coming year, of \$50,000, \$30,000, \$50,000, \$45,000 and \$35,000, respectively) (other requirements may also apply for residents of other jurisdictions);
2. He is able to bear the economic risk of the investment to the extent that he could afford a complete loss of his investment in the Units offered hereby;
3. He understands that the Units offered hereby have not been registered under the Act or the securities laws of any state or the Commonwealth of the Northern Marianas because they are issued in reliance upon exemptions which are available only if certain restrictive conditions are met;
4. He is acquiring the Units for investment purposes only and the Units which he is acquiring must be held by him, without sale, transfer, or other distribution for an indefinite period, and that the Non-Recourse Notes and Participation Rights Units place additional restrictions on the sale or transfer of the Non-Recourse Notes and Participation Rights (see "Description of Units"); and
5. Personally, or along with his Purchaser Representative, he has sufficient expertise and experience in business and financial matters to evaluate the merits and risks of an investment in the Company.

In order for a person to qualify as a "Purchaser Representative", the General Partner must reasonably believe that such person satisfies all of the following conditions, or the person must in fact satisfy all such conditions:

1. Such person is not affiliated with IOTA or the General Partner;
2. Such person has sufficient knowledge and experience in financial and business matters that he, either alone or together with other representatives of the investor, is capable of evaluating the merits and risks of the prospective investment;
3. Such person is acknowledged by the investor, in writing, during the course of the transaction, to be his Purchaser Representative in connection with evaluating the merits and risks of the prospective investment; and
4. Such person discloses to the investor, in writing, prior to the acknowledgment specified in clause 3 above, any material relationship between such person or its affiliates and IOTA or the General Partner and their affiliates, which then exists or is mutually understood to be contemplated or which has existed at any time during the previous two years, and any compensation received or to be received as a result of such relationship.

The General Partner will determine, based upon information made available to it, including the information supplied by a potential investor in his executed subscription documents, whether the investor may be deemed to be an Accredited Investor as defined in Regulation D under the Act. By way of example, but not by way of limitation, persons who qualify as "Accredited Investors" include the General Partner of IOTA; any person who is an executive officer of the General Partner of IOTA; any natural person whose individual net worth, or joint net worth,

with that person's spouse, at the time of his purchase exceeds \$1,000,000; any natural person who had an individual income in excess of \$200,000 (or joint income of the investor and his or her spouse in excess of \$300,000) in each of the two most recent years and who reasonably expects income in excess of such amount in the current year; banks; private development companies; 501(c)(3) organizations; trusts, with assets of at least \$5,000,000, not formed for the purpose of investing in the Units; and any entity in which all the equity owners of that entity are Accredited Investors under certain of the criteria for determining an Accredited Investor under Regulation D. Whether or not a person is an Accredited Investor, the General Partner will retain the sole discretion to accept or reject any subscription tendered to IOTA by any prospective investor.

### **TERMS OF THE OFFERING**

This offering is for a maximum of 266 and a minimum of 150 Units, each Unit representing an investment of \$5,000. The minimum investment is \$5,000 for 1 Unit, provided the General Partner of IOTA may permit the purchase of a partial Unit if the General Partner deems it to be in the best interests of IOTA. See "DESCRIPTION OF UNITS"

All subscription documents and checks for the purchase of the minimum number of Units offered hereby will be held in escrow by IOTA until the first 150 Units offered hereby have been sold. At that time, subject to acceptance by the General Partner of the subscriptions, the checks for payment of the Units will be deposited in IOTA's account and the proceeds applied to the Project. In the event less than the minimum number of Units offered hereby have been sold prior to termination of this offering, all checks for the purchase of Units will be returned to the respective subscribers.

The purchase price for the Units is payable upon subscription. The General Partner or affiliates of IOTA may purchase any number of Units for their own account if a subscription for such is consistent with applicable securities law requirements.

The Units will be sold by the General Partner, IOTA and their affiliates, and may also be sold by brokers/dealers. No commissions or other remuneration will be paid to the General Partner, IOTA or their affiliates for placement of the Units. There are no commitments by or agreements with brokers/ dealers to place the Units. IOTA reserves the right to pay commissions, not to exceed 12%, to brokers/dealers, as well as finder's fees, not to exceed 5%, to individuals in connection with the sale of the Units.

The first 150 Units offered hereby will be sold on an "all or none; best efforts" basis. Thereafter this offering will continue on a "best efforts" basis until the earlier of (i) the date the General Partner may, in its sole discretion, determine (ii) the date all Units have been sold, or, (iii) April 30, 2004, which termination date may be extended for up to 60 days at the sole discretion of the General Partner. As soon as practicable after sale of the first 150 Units, the proceeds from this offering, less expenses of the offering, will be committed to the Project.

### **DESCRIPTION OF UNITS**

The Units are comprised of 2 components: a loan to IOTA in the amount of \$5,000 per Unit (the "Loan") and the receipt by each Investor of an interest in the profits from the Project allocated to IOTA (the "Participation Rights"). Each Investor in the Units will, by purchasing a Unit, loan to IOTA \$5,000 per Unit. In exchange, each Investor will receive a non-recourse note ("Non-Recourse Note") in form and substance as set forth in Exhibit A attached to this Memorandum. Under the terms of each Non-Recourse Note, each Investor will receive 17% interest annually for the first 2 years of the Loan and thereafter 10%, such interest to be compounded annually. The principal and interest of each Loan is to be paid from the initial proceeds from the sale of artifacts recovered from the Santa Margarita or other proceeds from the Project on a pro rata basis to each holder of a Non-Recourse Note prior to the payment of any other Investors in the Project, but not before payment of all expenses allocated to the Project. Each Loan is to be repaid in any event no later than 5 years after the date of the investment. NEITHER IOTA, THE GENERAL PARTNER OR ANY OTHER PERSON IS LIABLE FOR REPAYMENT OF THE LOAN EXCEPT TO THE EXTENT OF PROCEEDS FROM THE SALE OF ARTIFACTS RECOVERED FROM THE SANTA MARGARITA AFTER PAYMENT OF ALL EXPENSES ALLOCATED TO THE PROJECT AND THE 25% INTEREST OF THE PROCEEDS ALLOCATED TO THE CNMI.

Each Investor in the Units will also receive Participation Rights for each Unit purchased granting to such Investor the following portion of IOTA's profits derived from the Project; (a) from the initial profits derived from the Project by IOTA, twice the principal of the Loan (or

\$10,000 per Unit); and (b) 0.16% of the profits derived from the Project allocated to IOTA for each Loan of \$5,000 until IOTA receives an aggregate of \$50,000,000 in gross revenues derived from the Project exclusive of the amounts paid in (a) above; and (c) thereafter 0.08% of the profits derived from the Project by IOTA. The amounts payable to Investors in the Units for the Participation Rights shall be paid under (a) above at or before the earlier of the first distribution to the Limited Partners of IOTA or at or before the payment of any expenses of IOTA other than expenses incurred directly in calculating the profits derived from the Project. The amounts to be paid to Investors in the Units under (b) and (c) above shall be paid to the Investor at the same time the profits derived from the Project are distributed to the Limited Partners of IOTA, from time to time. Each Investor will enter into a Participation Rights Agreement with IOTA in form and substance set forth in Exhibit B. Since the terms of the Participation Rights are governed by such Participation Rights Agreement, each Investor is encouraged to review Exhibit B with his or her investment, tax and legal advisors.

Investors in the Units should be aware that the Non-Recourse Note and Participation Rights are non-transferrable except with the prior written consent of IOTA. In the event of an involuntary transfer by operation of law, transfer is only effective if the transferee agrees to be bound by all the terms and conditions of the Non-Recourse Note and the Participation Rights Agreement. "IOTA's profits derived from the Project," for purposes of determining the Participation Rights of the Investors, will be all of the revenues received from the salvage of the Santa Margarita, including proceeds from the sale of artifacts recovered from the Santa Margarita, royalties and revenues of every kind and nature, less all of the expenses, direct and indirect, allocated to the Project, and less the allocation of proceeds to CNMI pursuant to the terms of the CNMI Agreement (See the "CNMI AGREEMENT"), and less all priority payments consisting of the profits derived from the Project to be paid to Rota Recovery Company, Santa Margarita Recovery Company, or Net Proceeds Investors prior to the distribution of profits derived from the Project to IOTA. (See "THE PROJECT" for a description of the priority payments payable to these entities as a result of previous financing for the Project)

#### **ADDITIONAL INFORMATION**

At any time prior to the consummation of a sale of the Units, Jack Harbeston and other agents of the General Partner and IOTA will be available to each prospective investor and his advisors to answer questions concerning this offering and to provide any additional information reasonably requested to verify the accuracy of the information contained in this Memorandum provided such information is available or can be acquired without unreasonable expense or cost, and provided further that certain proprietary information relating to specific shipwrecks cannot be disclosed in advance of recovery. Upon request, documents referred to herein will also be made available. Jack Harbeston may be contacted at IOTA Partners Limited Partnership, 15600 N.E. 8th Street, B1-PMB 462, Bellevue, Washington 98008 (425) 641-2919, or by fax at 1 425 644 6990, or by E-mail at [iota88@aol.com](mailto:iota88@aol.com).

#### **SUBSCRIPTION PROCEDURE**

Investors should deliver an executed copy of (1) the Subscription Agreement, (2) an executed copy of the Counterpart Signature Page for the Participation Rights Agreement, (3) a completed and executed copy of the Prospective Purchaser Questionnaire, if needed, (See Exhibit G) and (4) a check, payable to IOTA, in the amount represented by the number of Units purchased to Jack Harbeston, 15600 N.E. 8th Street, Unit B1-462, Bellevue, Washington, 98008.

Such delivery shall constitute an irrevocable offer by the investor to purchase the number of Units subscribed for upon acceptance by the General Partner of his subscription. A subscriber shall not be entitled to return of his subscription funds, to withdraw, rescind, or reduce his subscription for any reason unless the General Partner rejects his subscription or unless the minimum number of Units offered hereby are not sold prior to termination of this offering. As soon as practicable, the General Partner will provide the investors either written notice of rejection of subscriptions, or fully executed copies of the Subscription Documents, Non-Recourse Notes and Participation Rights Agreement.

#### **USE OF PROCEEDS**

The proceeds from the sale of the Units offered hereby will approximate \$1,330,000 if all of the Units offered hereby are sold, and approximately \$750,00 if the minimum number of Units offered hereby are sold, exclusive of offering costs.

All of the net proceeds from the sale of the Units will be used by IOTA in furtherance of the Project. The General Partner has estimated that a minimum of approximately \$750,000 will be required, assuming no unforeseen adverse conditions, to complete the salvage stage

of the Santa Margarita venture. It is likely that IOTA will require approximately \$1,330,000 to complete salvage operations, restore the excavation site as required under the federal permit, and commence marketing of the artifacts recovered. The projected scenario presumes such factors as continued efficiency of crew and equipment, the absence of natural catastrophes such as major earthquakes and typhoons, the ability of legal counsel to defend against and shield the Company operations from obstructive government actions; the discovery of sufficient quantities of financially valuable artifacts to serve as loan collateral, and/or the generation of income from intellectual properties. Such assumptions are specified following the table below.

IOTA's expected use of the net proceeds of this Offering for the Project during 2004 and 2005 is as set forth below. The costs shown below do not represent total Project costs. See "RISK FACTORS."

### PROPOSED BUDGET: 2004-2005

EXPENDITURE CATEGORY	2004	2005
Salaries and fees (divers, mechanic, office, conservation, etc.)	\$300,000	\$210,000
Travel (transportation, hotels, food)	40,000	30,000
Insurance: a) workers compensation	12,000	3,000
b) vehicles, vessels, liability	4,000	3,000
c) artifact insurance	15,000	15,000
d) unemployment insurance	4,000	2,000
Social Security & Medicare @ 8% of salaries (not fees)	20,000	8,000
Food Stipend for Crew on Rota (\$400 per month x crew of 12)	24,000	10,000
Facilities Rent: office, apartments, port compound, moorage	40,000	25,000
Utilities: electrical, water, garbage	13,000	10,000
Telephone/radio: ISP, fax, tel at office; 2 apt tel; wireless radio	10,000	10,000
Fuel (gasoline & diesel) and hydraulic fluid	50,000	15,000
Storage, including high security vault	12,000	15,000
Shipping containers & fees; postage; artifact & misc. shipping)	15,000	20,000
CNMI excise taxes; permit, immigration & misc. other fees	5,000	2,000
Artifact conservation supplies (containers, chemicals, picks, etc.)	3,000	2,000
Replacement equipment, parts, tools (esp. heavy duty excavator/breaker)	166,000	2,000
Outside Professionals/contractors : a) Legal	10,000	15,000
b) accounting	5,000	10,000
c) historical & artifact research	15,000	20,000
d) geology/marine biology	5,000	5,000
e) writers, editors, layout	15,000	25,000
f) intellectual properties, value added artifacts	10,000	20,000
g) artifact appraisers	15,000	20,000
h) equipment repair and supplies	10,000	5,000
i) misc. outside prof.: x-ray, gemology, test/date	5,000	5,000
<b>TOTAL ESTIMATE TO COMPLETE</b>	<b>823,000</b>	<b>507,000</b>

**TOTAL 2004-2005 BUDGET ESTIMATED TO COMPLETE THE PROJECT: \$1,330,000(1)(2)(3)**

- (1) The Use of Proceeds assumes the payment of \$15,000 for offering expenses. In the event the offering expenses are less than \$20,000, the unused funds will be allocated to general working capital.
- (2) The use of proceeds assumes that there will be no commissions or finders fees paid for sale of the Units. In the event IOTA pays commissions (not to exceed 12%) or finders fees (not to exceed 5%) in connection with the sale of the Units, the use of proceeds will be reallocated to the operations set forth above in priority as determined by IOTA, and will more likely than not affect the budget for 2005.
- (3) In the event all of the Units offered hereby are not sold, the General Partner has reserved the right to issue such Units in exchange for services and or goods needed for the Project. The actual number of Units to be used in lieu of cash for such services and goods will not exceed the amount of Units which are not sold in this offering.

This use of proceeds is based on the following assumptions:

1. It is anticipated that all of the funds for the Project will be provided by this offering. Thereafter, it is anticipated, although not assured, that traditional debt financing will be available for the Project utilizing the artifacts recovered from the Santa Margarita as collateral during the marketing phases. In the event such financing is not available, or the Company encounters unfavorable problems increasing the cost of the Project, IOTA will seek additional capital by selling interests in IOTA or the proceeds derived from the salvage of the Santa Margarita. There is no assurance IOTA will be successful in obtaining such additional capital.
2. The high concentration of artifacts in the area to be excavated, believed to be the stern castle of the Santa Margarita, will have several effects on the schedule and budget:
  - a) The productivity and the cost effectiveness of salvage operations will be greatly reduced (by as much as half) from years past in order to assure 1) a complete recovery (i.e. that little is missed in the target-rich area to be excavated), b) careful collection and secure, careful handling of valuable and rare artifacts, c) proper documentation and photography *in situ* of special artifacts, and d) interruptions for filming and publicity.
  - b) There will be a larger number of artifacts to conserve and restore, leading to higher costs of labor, storage, security, transportation and insurance.
3. Another cause of (further) reduced productivity and cost effectiveness is frequent surge in the shallows where the stern castle is to be excavated. The stern castle area of the ship is the highest point on the reef front where the ship came to rest.
4. Settlement of IOTA/Sea Search Armada's lawsuit against the Government of Colombia, together with related negotiations, will occasionally take Jack Harbeston away from his duties as Manager of the Project, accumulating to the equivalent of about two months for 2003. IOTA's Colombian lawyer expects the Colombian Supreme Court to rule in favor of IOTA/Sea Search Armada in 2004, triggering negotiations with the Government of Colombia and others which are expected to continue into 2005. See "HISTORY OF IOTA - Other IOTA Targets."
5. IOTA will mobilize on Rota in May, 2004, preceded by shipment of a container of equipment and supplies from Seattle the end of March. A crew of 10 divers, plus supervisors, a mechanic, 2 archeologists, a marine conservator and an office manager will work from May 1- October 31, and the conservator and archeologists will continue to work on artifact restoration and historical research through December 31.
6. The excavation of the stern castle will be completed in 2004 or 2005, weather permitting, but additional diving will be required to excavate outward from the stern castle to establish the perimeter of the debris field. When the debris field thins to the point that artifacts of value are no longer being found, the excavation will be completed, and the site will be prepared for termination of the federal permit. Such excavation assures a) investors that the salvage team has reasonably recovered the whole shipwreck (i.e. nothing of value likely remains), and b) buyers of rare or one of a kind artifacts that the whole ship is recovered and that further excavation of the site will not yield several more of the "one of a kind" object, and therefore greatly reduce the value of the one first purchased. In addition to limited diving in 2005, probably completed in July or August, most, but not all, of the artifact conservation and restoration will be completed, together with development of intellectual properties and value added artifacts.

7. The 2005 schedule is keyed to a public auction of artifacts, with proceeds from the auction to be available about 3 months thereafter, following a financial audit by an independent accounting firm, and a reappraisal of the CNMI in-kind share (artifacts selected for public display). As sales of intellectual properties, value added artifacts and some types of artifacts will continue indefinitely at retail outlets of the auction house, IOTA's Internet web site, and other venues, it is expected that future distributions will occur on an annual or biannual basis.
8. The federal permit for the Santa Margarita project requires that annual reports be prepared, a final report be prepared, and the site left in a "clean" condition, with all traces of IOTA's equipment and supplies removed.

In the event more than the minimum but less than all of the Units are sold in this offering, the proceeds will be allocated to the operations as set forth above in priority as determined by IOTA. Future events may also require changes in priorities and the allocation of funds. Such will be done at the sole discretion of IOTA.

It is the intent of IOTA to invest the net proceeds of this offering, pending their use, in short-term interest bearing bank certificates of deposit, insured commercial bank savings accounts, government securities, short-term commercial paper or money-market certificates. IOTA does not intend to register under the Investment Company Act of 1940, and therefore will be limited as to the types of investments which may be made with the proceeds of this offering. Income earned on these investments will be used to augment the above expenses.

The proposed amounts of working capital and priorities of application of proceeds represent estimates of IOTA based upon currently known conditions, and assumes that no revenues from the Project and no funds from additional financing are available until August, 2005. It is the intent of IOTA that this conservative representation (no revenues for almost two dive seasons and no funds from financing) will not be the case; and IOTA will use its best efforts to generate revenues and obtaining financing using the artifacts (and proceeds therefrom) as collateral as soon as practical.

## THE PROJECT

On April 12, 1993, IOTA Partners Limited Partnership ("IOTA"), entered into an exclusive contract with the Commonwealth of the Northern Mariana Islands ("CNMI"), a United States Commonwealth. This contract granted to IOTA the exclusive right to salvage abandoned shipwrecks for an initial period of three years, which period was extended for two years. This contract was extended for 5 years, and may be extended for an additional 20 years to 2026, as needed for completion of salvage activities. See "THE CNMI AGREEMENT."

IOTA mobilized a reconnaissance expedition in 1994, and an electronic survey expedition in 1995. On June 17, 1995, IOTA officially registered the location of the Santa Margarita with the CNMI Secretary of Land and Natural Resources. Immediately, IOTA began making plans for the recovery, preservation, restoration and marketing of Santa Margarita artifacts (the "Project").

In order to finance initial recovery operations, Santa Margarita Recovery Company, L.L.C. ("SMRC") was organized on February 5, 1996, and 1,323 Units of interest in SMRC were sold. The net proceeds from the sale of SMRC Units were \$1,323,000, all of which were committed to the recovery of the Santa Margarita under the terms of the SMRC Financing Agreement. In addition, certain individuals provided services for the Project in exchange for interests in SMRC. To date, a total of \$1,500,000 in cash and services has been provided by SMRC. In exchange for its contribution to the Project, SMRC was granted a 5% interest in the net proceeds allocated to IOTA from the Project or \$4,500,000, whichever is greater (the "SMRC Interest"). In addition to the SMRC Interest, IOTA also sold 24 CNMI Net Proceeds Units for \$24,000.00 granting the holders thereof an aggregate 2.4% interest in the net proceeds from the Project (the "CNMI Unit Interest").

Rota Recovery Company, LLC ("ROTA") was organized on February 19, 1999 to also provide financing for the Project. ROTA sold 3,196.92 Units of membership interests for \$2,223,417, which has been committed to the recovery of the Santa Margarita under the terms of the ROTA Financing Agreement. In exchange for its contribution to the Project, ROTA was granted, subject to the SMRC Interest and CNMI Unit Interest, priority rights in the net proceeds from the Project equal to 8.38% of the net proceeds allocated to IOTA or 3 times their investment (\$6,670,251), whichever is greater. In addition, ROTA received 11.12 limited partnership units in IOTA, which represent about 5.0 % of IOTA's limited partnership interest in the Project. A copy of the SMRC Financing Agreement,



CNMI Unit Agreement and ROTA Financing Agreement may be obtained from the General Partner. See "ADDITIONAL INFORMATION."

The Investors in the Units offered hereby will be, under the terms of the Non-Recourse Notes, repaid their Loan to IOTA, with interest, prior to any distributions made to SMRC, the CNMI Unit interest holders, or ROTA, but not before payment of expenses attributable to the Project including deferred salaries and compensation. However, the Investors in the Units will not realize any return from the Participation Rights until after the Investors in SMRC, the CNMI Unit Interests, and ROTA have received their preferential distributions of net proceeds from the Project (See Exhibit E). In 2003, IOTA sold or issued for services 114 Units resulting in net proceeds of \$570,000, which were used for recovery operations.

In 1996, IOTA commenced the initial salvage operations for recovery of the Santa Margarita. Although IOTA obtained permits necessary for the recovery of the Santa Margarita from the appropriate government agencies, IOTA's progress was limited due to start-up and training requirements, adverse weather, and government imposed work stoppages. Nevertheless, IOTA recovered over 1,300 artifacts including copper ingots, gemstones, beads, pieces of wood believed to be from the Santa Margarita, and large ballast stones. Judging from the daily rate of artifacts recovered during the 1996 operations, it became apparent that IOTA was zeroing in on the main body of a ship believed to be the Santa Margarita. The rate of artifacts finds increased progressively during the last ten days of excavation, accounting for about 75% of the artifacts recovered.

IOTA also learned from its 1996 excavations that a great many large coral boulders are buried under the sand, and that they must be lifted out. Moving them with lift bags, which IOTA was limited to under its "hand tools only" permit, was slow, inefficient and dangerous. These restrictions, as well as others in the original permits, prompted IOTA to request an amendment of its federal permit to allow substitution of a crane and grapple for the lift bags. That amendment was granted, and efficiency and productivity increased during recent operations.

During the 1996 excavation, a significant portion of the problems arose because of onerous regulatory procedures, most of which were related to United States laws and government agencies. Eleven federal, CNMI, and local government entities were involved, all coordinated and administrated by the United States Army Corp of Engineers. These agencies, who controlled the restrictions on the 1996 excavation permit, also attempted to add restrictions to the requested amendment in 1997. To site a few examples of these restrictions, IOTA was expected to excavate only when government observers were present, to glue coral back to the sea bed when it became detached, and to hire only archeologists approved in advance by government agencies. Fortunately, the United States Army Corp District Engineer eventually threw out the proposed conditions, and issued the requested amendment to the permit, but only after the Project had been delayed two years. With the amendment, issued November 23, 1998, and the extension of the permit through 2004, all permits were in place to complete the Project without further delays by government agencies in the General Partner's opinion.

In order to protect IOTA and its affiliates from interference from the CNMI government and attempts from third parties to usurp the Project, at IOTA's request the CNMI government and IOTA executed a revised and restated agreement on September 17, 1997 (the "CNMI Agreement"). The CNMI Agreement was revised to prevent undue interference from the CNMI Historic Preservation Office, to emphasize IOTA's control and direction of the Project, to delete the requirement that the Historic Preservation Office approve IOTA's archeology plan, and to assure IOTA that its archeologist could effectively supervise archeology staff when the archeologist was temporarily away from the site. Most importantly, the CNMI Agreement recognized IOTA's right to the Santa Margarita, including the exclusive right to recover the Santa Margarita. Substantially all of the remaining terms of the original April 12, 1993 contract between IOTA and the CNMI were retained in the new CNMI Agreement, including the allocation of artifacts and proceeds from the Project. The term of the 1997 CNMI Agreement was extended in 2002 through September 17, 2006, with provisions to automatically extend the term as much as 20 years beyond that if needed to complete the salvage stage. See ("THE CNMI AGREEMENT").

In retrospect, it appears that the part of the wooden ship first encountered in 1996 was the bow, which had settled into the edge of a sandpit. The years 1999 through 2001 were spent excavating about two thirds of the ship's length, tracking its wooden hull, buried under as much as 23 feet of overburden, up the reef front. During the 2002 season, test holes near the top of the reef established a) the artifacts encountered were more concentrated than any area of the ship previously excavated, and a number of the artifacts were likely from the sterncastle, that area of the ship in which the most valuable artifacts were stowed. (See opinions by Historian, Dr. David Hebb, and Archeologist, Dan Koski-Karell attached as Exhibit C.) The working hypothesis is that the 40 feet by 40 feet section of the ship remaining to be excavated will yield both more artifacts and more valuable artifacts than the rest of the ship has thus far.

produced, and that the sterncastle can be substantially excavated in one full diving season, weather permitting, with clean-up operations completed during the following year. See also Exhibit F.

At the end of 2002, it was estimated that approximately \$1,230,000 in working capital would be needed to complete the salvage stage of the Project at which point it was expected that artifacts recovered could be used as collateral for a loan to fund the remaining working capital. Due to several unforeseen circumstances, IOTA was unable to raise the entire amount necessary to complete the salvage stage of the Project in 2003. Despite the financial adversities, IOTA mobilized on Rota in May, 2003, relying on limited financial resources and the willingness of staff to defer salaries in lieu of a share of proceeds from the Project. The total capital raised in 2003, including units for services, was about \$570,000.

Thanks to the rich artifact field of the Santa Margarita, IOTA's operations yielded many valuable artifacts in 2003. Carved ivory artifacts alone totaled 345 pieces, adding to IOTA's existing inventory of ivory art from the Santa Margarita. Finds also included several figurines of museum quality. The most compelling result of the 2003 season was the evidence that the stern castle was a large and exceptionally rich artifact field. Even the smallest excavation within the roughly 2,500 square foot area of the stern castle yielded artifacts including silver coins (pieces of eight), gems, jade, mother of pearl, gold alloys, pewter, fine china and glass, and ivory ranging from Madonna figurines to combs, dice and chess pieces.

Most of the stern castle remains to be excavated, but the 2003 excavation revealed that hard coral protecting it will take years to excavate unless heavy equipment is used, which is planned. In addition, the thousands of artifacts must be numbered, classified, cleaned, desalinated, restored and transported to a high security vault to await sale. The extra cost for heavy equipment and artifact treatment has been factored into the use of proceeds by IOTA. Thus the budget for the next 2 seasons of operation and 2003 has been expanded to \$1,900,000. After deducting the cost of the 2003 excavation season, an additional \$1,330,000 in working capital is needed to complete the next two years of operations.

Below is a more complete description of the Santa Margarita (based on archives research), the Financing Agreement, and the anticipated Recovery Operations.

### **The Santa Margarita**

Of all the ships engaged in Maritime trade during the colonial period, the largest and richest were the Manila Galleons of the King of Spain. Built in the Philippines, often using exotic hardwoods layered to repel cannonballs, the ships were heavily armed to resist the attacks from English, Dutch, Portuguese and French ships which competed with them for the profitable trade with the Spice Islands, China and Japan.

Each year between 1567 and 1815, with few exceptions, at least one Manila Galleon made the round trip from Manila to Acapulco to trade with Spanish colonials in the Americas and to transship part of its cargo across Mexico by mule train to Veracruz and thence to Spain.

The trip each year began at Manila. The Galleon sailed south to the San Bernardino Strait, then eastward into the Philippine Sea. There the waters of the Kuroshio (Black Current) carried the galleon northerly near the coast of Japan to the North Pacific, or Japanese, Current. The North Pacific Current, combined with westerly winds, carried the Galleon on a six thousand mile arc toward Alaska, and eventually to a landfall in the vicinity of Cape Mendocino on the Northern California Coast. The trip was exceedingly long and difficult; it was not uncommon to lose one third to one half of the passengers and crew on the eastbound leg alone. From Cape Mendocino the Manila Galleons then coasted another 2,000 miles south to Acapulco.

Cargo on the eastbound leg to Acapulco usually included worked gold, such as chains, necklaces and other jewelry, gold bullion, precious stones, Ming porcelain, silks and spices. On the return trip from Acapulco to Manila (i.e., westbound), the ships roughly followed the 15th parallel north of the Equator. Their return cargo consisted almost entirely of silver (both coins and bullion) to be traded for China goods and gold. The scarcity of silver in China resulted in a great demand for Spanish silver from the Americas. Consequently, a trading ratio of silver to gold developed which made trading silver for Chinese gold and other trade goods far more attractive than shipping the silver from the Americas directly to Europe.

On the eastbound leg (i.e., going to Acapulco), galleons such as the Santa Margarita carried more valuable cargo than on the westbound leg. Due to space constraints imposed by the king, and tax benefits relating to jewelry, the ships leaving Manila were laden with cargo which had the highest value in terms of weight to volume. Thus, jewelry became the most frequent medium of conveying wealth back to Spain. For example, the value of an eastbound galleon is typically over one hundred million dollars, while the value of a westbound galleon, carrying mostly silver coins and bullion, is typically five to ten million dollars.

The Santa Margarita sank off the coast of Rota in the Northern Mariana Islands in February 1601. Based on historical research and site findings to date by IOTA, it has been determined that the Santa Margarita left Cavite, across the bay from Manila, Philippines, in July, 1600, grossly overloaded and poorly ballasted. Its crew included only a few experienced sailors, which were commanded by a greedy general with no sea experience. The Santa Margarita was at sea about 7 months, enduring brutal storms and hardships trying to make Acapulco via the standard route, which crossed the Northern Pacific at a latitude of 40 to 45 degrees. At the Northern latitudes, major storms dismantled the ship, washed away the forecastle and galleries, broke the rudder, spoiled the food and washed away many of the 300 crew and passengers.

To save the ship, nearly 400 pieces of cargo, representing about 5% of its normal cargo burden (in fact, the ship was laden far beyond its permiso), were thrown overboard. The Santa Margarita was then reballasted, a mast was jury rigged from a beam, and the rudder was replaced with a blade, or board. Altogether, management believes that less than 10% of the cargo which would survive today was carried away by storms or jettisoned.

It took the Santa Margarita over 3 months to limp back to the Marianas Islands, during which time most of the remaining crew and passengers died of starvation, exposure and scurvy. When the ship anchored at Rota in February 1601, only about two dozen of the original 300 remained alive, and half of them died within a few days of anchoring. After six days at anchor, the rope parted and the ship drifted toward the reef, so calmly that the few remaining aboard did not realize they were adrift. To reach the reef, the Santa Margarita drifted across a sandy bottom, into an underwater box canyon between coral ridges sloping up almost to the surface. It drifted to the end of the box canyon, where it could go no further. Eventually the powerful surf from the Trade Winds crushed the hull against the reef. As the bottom was pounded against the upward slope of the reef, the ship was gutted, and spilled out its ballast stones, Ming porcelain and other precious cargo into the sand and coral rubble on the face of the reef. At the first major storm or earthquake, the sand liquified and the cargo dropped down through the quicksand to bedrock, where, contained by its coral canyon, it has been protected 400 years by ten to twenty feet of sand and coral rubble.

Three months after the Santa Margarita wrecked on Rota, the island was briefly visited by a westbound Spanish Galleon for provisions. The ship rescued five survivors of the Santa Margarita during its visit. At the same time, two Franciscan missionaries on board the west bound galleon, Fr. Juan Pobre and Fr. Pedro, jumped ship in order to do missionary work. Shortly after Fr. Pobre's arrival on Rota, he was visited by a survivor of the Santa Margarita, a Spaniard he called Sancho, who gave him a detailed, eyewitness report of the ship's voyage and sinking, including its arrival at Rota in darkness:

"We placed a broken jar as a headlight with a torch heavy with wax and wrapped with canvas until we saw that the Indians ashore responded to our light with big fires. We guided ourselves toward the direction and went to anchor in front of a great fire and so near it that we could hear the shouts made by the Indians ashore. There we spent the rest of the night giving thanks to God who had used his great mercy toward us miserable ones."

"We had built a very small boat out of some crates that had been left, and although we were somewhat better, with all this there were still not enough strength to be able to put it into the sea until we hailed some Indians who were in canoes near the ship, and by signs we told them to throw it into the water for us, which they did, and we paid them three iron hoops for that. The six Spanish embarked. There were many reefs as there are at all the islands of the Ladrões (Marianas) close to the shore. The Indians told them that they should turn to the right because there was the entrance through the reef, but they were lying because there was no entrance except where they were (i.e., had been) going. Thus, they were tricked and, as they reached the reef, the boat overturned and broke into pieces.

"We were with real grief for five days and on the sixth in the morning, the Ladrone Indians doing the pumping and we being very distracted, we found ourselves upon the reef. We thought that the Indians had cut the rope with which we anchored, but in truth it was as rotten as we were and it must have come apart. Seeing that there was no longer any remedy, we let the Indians come in, rather, they came in because there was no longer any defense to prevent entry. They took over the Galleon and began to take out of her

whatever they found made of iron and other things and put those things in their canoes."

After the crewless ship grounded, it was immediately taken over by natives, who looted it of iron, which they prized above all else. ("They prize iron so much they do not let it touch the ground.") The valuable cargo of the Santa Margarita was of little interest to the natives. There is further evidence in Pobre's account which assures that neither the natives nor the Spanish survivors salvaged valuables from the wreck of the Santa Margarita. The west-bound galleon from which Pobre jumped in 1601 took on 5 other survivors of the Santa Margarita and returned them to Manila. En route, the survivors were interviewed, and confirmed that the ship was not looted for valuables, but for iron.

Because the Spanish were at war with the natives for nearly a hundred years after the Santa Margarita sank, the Spanish made no serious attempt to salvage the ship until 1703, when some of its cannons and anchors were recovered. Within one year of the wreck, of course, the valuable cargo had gravitated down through liquified sand until it came to bedrock (i.e. the old reef). The Spanish had no way of recovering it. Modern efforts to locate the Santa Margarita have met with even less success than the Spanish attempts 300 years earlier, until IOTA succeeded in locating and identifying the ship in June, 1995.

The conclusion by IOTA consultants is that a) the ship sank in one piece, b) most of the cargo went to the bottom in the first storm, c) the entire cargo remains in the same place where it sank, and d) the cargo is protected in a coral canyon, and contained and preserved by deep sand and coral rubble.

Value of the artifacts on the Santa Margarita cannot be determined with any certainty at this time. IOTA's Historian, Dr. David Hebb, has estimated that value of the gold jewelry alone on the Santa Margarita has a value of approximately \$138 million to \$208 million. Until all of the treasure is on shore, restored and auctioned, there is no way to predict its total financial value. Furthermore, a major portion of the financial value will be added by the professionalism of the recovery, and the marketing and publicity efforts (See "MARKETING AND DISTRIBUTION"). In short, the work done by IOTA and the CNMI to properly publicize the ship's recovery, will largely determine the value of the artifacts at auction.

## Recovery Operations

Below is a bar chart showing the Schedule of each stage of the Project to be completed in 2004 and 2005. The horizontal line of squares indicates the quarters of the year in which the work task will be prosecuted. The level of effort is indicated by the size of the bar or square: a small "■" indicates a lower level of effort; a large "■" a higher level of effort.

**SCHEDULE**  
(By Calendar Year Quarter)

	2004				2005			
<b>SALVAGE</b>	1	2	3	4	1	2	3	4
Pre-mobilization (plan, recruit, construct, purchase, & ship)	■				■			
Mobilization, testing, surveys		■				■		
Security: site, facilities, artifacts	■	■	■	■	■	■	■	■
Excavate stern castle (May 15-October 15)			■	■				
Site perimeter discovery; clean-up per federal permit							■	
Demobilization				■			■	
Report preparation & reporting per federal permit				■				■
<b>CONSERVATION AND RESTORATION</b>								
Inventory control	■	■	■	■	■	■	■	■
Expert opinions and historical research re artifacts			■	■	■	■	■	■
Cleaning, conservation, restoration			■	■	■	■	■	■
Report preparation				■				■
Appraisal of artifacts per agreement with CNMI						■	■	
<b>DEVELOPMENT, MARKETING, SALES</b>								
Develop intellectual properties (books, video)		■		■	■	■		
Market intellectual properties		■			■	■	■	■
Develop value added artifacts (jewelry etc. from shards etc.)				■	■			
Market value added artifacts				■	■	■	■	■
Develop and circulate traveling displays				■	■	■	■	■
Publicity				■	■	■	■	■
Auction and follow-on sales								■
Reappraisal CNMI selected artifacts, based on auction								■
Accounting, audit and distribution of proceeds								■
Cont. sales & distributions: int. prop. & value added artifacts								■

**The Salvage Stage.** It is anticipated that the recovery of the Santa Margarita will be substantially completed in 2004 depending on the weather, funding and other factors discussed in this Memorandum. Most of the activity on site in 2005 will be related to establishing the perimeter of the wreck site, clean-up and demobilization.

**Post-Salvage.** Post-salvage inventory and restoration consists of several tasks. Artifacts will be treated by conservation specialists, and where feasible and desirable, restored by specialists. Archaeologists, appraisers and specialists will review and classify each artifact. Strict inventory controls will be instituted to insure that all artifacts are accounted for. During this time, the Project will be publicized to gain momentum in anticipation of the marketing phase.

**Marketing.** During the marketing phase, most of the artifacts will be sold at auction(s) conducted by reputable auction companies. Artifacts selected by the CNMI Government will be delivered to them as a portion of their share of the proceeds from the Project.

IOTA has already made contact with the world's two leading auction houses, Sotheby's and Christie's, to discuss the marketing of the Santa Margarita artifacts. In addition to providing auction and appraisal services, financing for the post-salvage stages may be obtained using the recovered artifacts as collateral. Of course, the availability of this financing is subject to many contingencies, including, but not limited to, the successful recovery of the artifacts, the appraisal of the artifacts, and the anticipated proceeds to be received from sale of the artifacts.

It is possible that complete marketing of the artifacts may take up to three years, or more, due to the great number of valuable artifacts believed to be carried by the Santa Margarita. In order to receive the highest value for the artifacts, an organized marketing effort is imperative, beginning with the initial auction at the end of 2005. Several auctions may be required to dispose of the thousands of artifacts expected to be recovered from the Santa Margarita. IOTA also intends to sell artifacts on IOTA's internet site, and value-added artifacts such as jewelry made from porcelain pieces, through various outlets. There can be no assurance that the marketing effort can produce proceeds sufficient to cover the costs of the Project.

### **Pro Forma Return Projections**

Attached hereto as Exhibit E are Pro Forma Return Projections representing possible net proceeds allocable to the investors in the Units offered hereby. Although potential investors in the Units should review these projections to obtain a sense of the possible return on their investment, potential investors should recognize that the projections are forward looking, and are based on IOTA's current expectations that involve risks and uncertainties. Consequently, the actual results and a return on an investment in the Units could differ materially. Some of the factors that could cause the results to differ materially from the current expectations are set forth under "RISK FACTORS". Furthermore, the projections are based upon assumptions and information which may or may not be accurate, and therefore the projections should not be relied upon by potential investors in the Units as a representation of the actual or intended results of the Project, the allocation of profits from the Project, or return on an investment in the Units.

## **HISTORY OF IOTA**

### **General Business History**

IOTA was formed as an Idaho Limited Partnership on October 21, 1988. IOTA is owned by (a) 40 Limited Partners, who have contributed an aggregate of approximately \$2,089,000 and services valued approximately \$400,000 to IOTA, and (b) its General Partner, HFP, Inc. See "MANAGEMENT" and "CONFLICTS OF INTERESTS/RELATED PARTY TRANSACTIONS." Although IOTA is in the development stage, with no profitable operating history or revenues, IOTA has financed negotiations with Colombia, archives research, and negotiations with several sovereign nations for salvage operations, including the CNMI. Through its efforts over the past 15 years, IOTA is now in a position to complete its first major project, recovery of the Santa Margarita.

A copy of the Agreement of Limited Partnership of IOTA Partners Limited Partnership dated October 21, 1998, with Amendments dated March 31, 1990, June 30, 1993 and January 1, 1996 (collectively the "Partnership Agreement") is available from the General

Partner upon request (see "ADDITIONAL INFORMATION"). Potential investors in the Units are encouraged to review the Partnership Agreement, and consult with their own personal tax, investment and legal advisors before subscribing.

### **IOTA's Approach: A Global Portfolio**

The original purpose of IOTA was to prove the interests and rights of Sea Search/Armada ("SSA"), and its affiliates in the Spanish galleon, San Jose, sunk off the coast of Colombia in 1708. Rather than rely on only one project in Colombia for its return on investment, IOTA ultimately adopted a global approach, oriented to researching, locating, and recovering valuable shipwrecks from areas other than Colombia. This multi-project strategy achieves a spreading of risk and a more favorable risk/reward ratio.

### **Archival Research**

The accuracy and reliability of archival research is critical to the successful recovery of valuable shipwrecks, and thus indispensable to their success. Archives research often involves working with poorly organized, archaic manuscripts which are in the process of crumbling to dust and which bear quill and ink records three hundred or more years old, written on the deck of a pitching ship. Therefore, to assemble a meaningful and cohesive record of even one ship which sank several hundred years ago requires skills related to scholarly research techniques, familiarity with several languages, detailed knowledge of the political, economic, religious, and maritime practices of the period in which the ship sank, and some historical knowledge of the nation and trading company from which the ship originated. Many of the depositories for such records limit access to a few qualified scholars. Unless an applicant can qualify as a researcher, he is denied access to the principal archives. IOTA has entered into agreements with several qualified Marine Historians. See "MANAGEMENT." The services of these Marine Historians will be utilized to complete the Project.

At the present time, IOTA's research has identified approximately 70 shipwrecks of European registry in diverse geographical areas. The aggregate value of the shipwrecks is estimated to be in the range of \$5 to \$15 billion. One such shipwreck is the Santa Margarita.

### **Other IOTA Targets**

On behalf of Sea Search Armada ("SSA"), IOTA is pursuing the rights to six targets located by SSA between 1981 and 1985 in the vicinity of Cartagena, Colombia, and duly filed with the Government of Colombia. One of the targets was identified by SSA management in December 1981 as being the San Jose, generally recognized to be the most valuable shipwreck in the world, with a current value in the range of US \$3-\$10 billion. Under its 1988 management agreement with SSA, IOTA has provided finance and management to pursue the rights to SSA's six targets in exchange for 88.5% of the net proceeds from the salvage of these targets. Now in the 14th year of litigation (suit filed January 1989) against the Government of Colombia in Colombian courts, the suit has now been decided in favor of SSA by Colombian 1) Civil Court, 2) Constitutional Court, and 3) Superior (appellate) Court. The Government of Colombia has now appealed to the Colombian Supreme Court. A ruling is expected during 2004.

It is expected that a settlement will be negotiated following the Supreme Court Decision resulting either in the purchase of SSA's rights by the Government of Colombia (GOC), or the exploitation by IOTA of the six SSA targets. In the event that IOTA, acting for SSA, elects to undertake identification and recovery operations for the six targets (i.e. in the event the GOC does not purchase SSA's rights), the US Government has indicated such a project is eligible for up to \$200 million of political insurance (covering, for example, expropriation) underwritten by the full faith and credit of the United States of America. Under its management agreement with SSA, IOTA receives 88.5% of the proceeds from SSA's rights if the proceeds are less than US \$30 million, or, if the proceeds to SSA are over \$30 million, an additional bonus of double the investment of IOTA.

### **Financial Matters**

Although IOTA has been in existence for over 15 years, IOTA has no profitable operating history and has not experienced any revenues. Investors in the Units should be aware that although they will obtain Non-Recourse Notes, it is unlikely the Non-Recourse Notes will be repaid unless the Project is successful. Below is IOTA Selected Financial Data for 2001 and 2002. Investors in the Units

are encouraged to review complete IOTA Partners Limited Partnership Financial Statements for 2001 and 2002, copies of which can be obtained upon request from the General Partner. (See "ADDITIONAL INFORMATION").

IOTA Partners Limited Partnership  
Selected Financial Data

	<u>2001</u>	<u>2002</u>
Operating Revenues	-	-
Total Revenues <sup>(1)</sup>	72,047	39,760
Net Income (Loss)	(19,600)	(24,133)
Cash Flow	(368,323)	(234,828)
Total Assets	2,368,996	2,717,957
Total Liabilities <sup>(2)</sup>	3,090,811	3,463,899
Partner's Capital (Deficit)	(721,815)	(745,948)

(1) Revenues consists of interest on deposits and reimbursement of IOTA expenses by affiliates.

(2) Excludes deferred fees of \$410,789 payable to HFP, Inc. (General partner of IOTA) and one consultant payable only in the event IOTA realizes net revenues sufficient to pay such fees.

### THE CNMI AGREEMENT

The right to salvage the Santa Margarita, and the rights to the proceeds therefrom, are governed by the CNMI Agreement. Thus, IOTA's interest in the Project is subject to the CNMI Agreement; investors in the Units are encouraged to consider the effect of the CNMI Agreement on an investment in the Units. Below is a summary of what the General Partner believes to be the more pertinent provisions of the CNMI Agreement. The General Partner does not purport the summary to be complete. Accordingly, potential investors should contact Jack Harbeston if they have any questions regarding the CNMI Agreement.

On April 12, 1993, IOTA entered into an agreement with the government of the CNMI granting to IOTA the exclusive right to salvage abandoned shipwrecks in a designated search area for an initial period of three years, which period was extended for an additional two years. On September 15, 1997, at the request of IOTA, IOTA and the government of the CNMI executed the Santa Margarita Salvage Agreement (referred to herein as the "CNMI Agreement"). The CNMI Agreement amended and restated the original agreement with the government of the CNMI recognizing IOTA as the finder of the Santa Margarita and granted to IOTA the exclusive right to salvage the Santa Margarita and related artifacts within the Santa Margarita Salvage site. The CNMI Agreement granted to IOTA the exclusive control and direction for salvage activities and operations, and guaranteed CNMI's representatives will not unreasonably interfere with such operations. The term of the 1997 CNMI Agreement was extended to September 17, 2006 and will automatically be further extended until the recovery and marketing of the artifacts are completed and the proceeds from the Santa Margarita are distributed, or until September 17, 2026, whichever comes first. If marketing of artifacts continues for more than three years, at the end of such three-year period the artifacts will be divided among the parties based on the allocation of proceeds and the Contract will be terminated.

The CNMI Agreement provides for an allocation of 75% of the gross proceeds from the disposition of the artifacts to IOTA and 25% to the CNMI. However, the CNMI may choose specific artifacts and/or cash proceeds from the sale of the artifacts salvaged from the Santa Margarita for its share. The CNMI Agreement provides that IOTA will bear all the costs of the Project.

### COMPETITION

The exclusivity of the CNMI Agreement is designed to prevent any competition to IOTA in salvaging the Santa Margarita. However, illegal salvors could attempt to breach the security of the CNMI. For this reason, IOTA intends to maintain secrecy regarding certain matters, and to secure the location of the Santa Margarita and the artifacts recovered.



In addition to illegal competitors for the Santa Margarita, competitors in the marketing of artifacts and precious metals from other targets may be encountered. Since an orderly market for artifacts has not yet been created (such as DeBeers created for diamonds), competitors may glut the market at times, thereby causing IOTA to either accept lower prices, postpone auctions or restructure its short-term marketing plans.

## MARKETING AND DISTRIBUTION

Factors such as timing of the sale of artifacts and their authentication may dramatically affect the proceeds from the Project. IOTA intends to develop a marketing program emphasizing inventory control, security, authentication of artifacts, and publicity regarding the salvage. If managed properly, such procedures could yield values which are many times the "melt down" value of any precious metals recovered. As a result, it is unlikely that the investors in the Units will receive distributions "in kind" of any items recovered from a shipwreck. However, investors are encouraged to bid on desired artifacts from the Santa Margarita at public auctions in order to acquire artifacts at fair market value.

There can be no assurance the marketing efforts will justify the expense or that the appraised value of the Santa Margarita artifacts can be realized. See also "THE PROJECT" - Recovery Operations.

## GOVERNMENT REGULATION

IOTA and the Project are subject to a wide range of government rules and regulations promulgated by the CNMI government and United States government agencies with regard to salvage of the Santa Margarita. See "RISK FACTORS" and "THE PROJECT - Recovery Operations."

## PROPERTY

With the exception of its interest in the Santa Margarita, San Jose and the limited amount of equipment IOTA has purchased for the Project, IOTA does not own or lease any property. All offices and facilities on Rota related to the Project are leased. IOTA's offices in the United States and of the General Partner are currently used without charge. Nevertheless, the General Partner believes the properties of IOTA are adequate for its current needs.

## MANAGEMENT

### The General Partner of IOTA

IOTA is managed by its General Partner, HFP, Inc., a Washington corporation, which is solely owned by Jack Harbeston. Jack Harbeston also serves as the Project Manager for the salvage of the Santa Margarita. Below is a summary resume for Jack Harbeston:

**Jack Harbeston**, President of HFP, Inc., General Partner and manager of IOTA, is also a Director and President of Armada Company and the Managing Director of SSA, the Manager of SMRC and the Manager of ROTA. Mr. Harbeston has been IOTA's primary manager since its inception.

From 1963 until 1985 shortly before taking an active role in the management of SSA (with which IOTA has a management agreement), Mr. Harbeston owned and operated a management consulting and contract research company which provided decision-making information to government. Projects were usually conducted in close cooperation with government officials, including cabinet members of State and Federal Governments, or with legislative committees at either the state or Federal level. Liaison and rapport with high level decision makers was essential in assuring the usefulness of products developed. Many projects were national in scope or application, and required a focused, multi-discipline approach. Specialists in the

required disciplines were recruited from leading universities and institutions to serve as consultants and to augment permanent staff. The work schedules and products for specialists were coordinated to fit delivery schedules and project objectives. Specialists working on different components of a given project might include economists, statisticians, medical doctors, and engineers. The various components had to be integrated, then communicated to the clients, and finally applied to the problem which the project addressed. Many of the contract research projects resulted in articles and books authored by Mr. Harbeston, and/or papers presented at professional conferences.

From 1974-1986, Mr. Harbeston owned and was the CEO of Contract Research Corporation, with offices in Chicago, Little Rock, and Santa Fe. During that time, Mr. Harbeston conducted program and project evaluations, and policy formulation studies for state agencies, while maintaining three fully staffed offices.

From 1987 to the present, Jack Harbeston has served as the CEO of SSA and as the President and owner of the General Partner of IOTA. During this time, Mr. Harbeston represented these two investment groups in a series of international transactions and negotiations related to SSA's South American properties, and to a reorientation and global diversification of IOTA. Mr. Harbeston is directly responsible for negotiation of the CNMI Agreement.

Mr. Harbeston received his B.A. in 2 years from Central Washington University, while maintaining a GPA of 3.7 in upper division courses. From 1958-1960, Mr. Harbeston attended the University of Washington Graduate School, and was awarded a teaching fellowship.

### **Removal/Election of General Partner**

The Partnership Agreement of IOTA provides that the limited partners of IOTA may remove the General Partner upon the vote of Limited Partners owning at least 80% of the outstanding Units. Upon the removal, death or resignation of the General Partner, a new General Partner may be appointed by Limited Partners owning a majority of the Limited Partnership Interests.

Investors in the Units, however, will not become Limited Partners or equity holders of IOTA, and therefore will have no vote with respect to the removal of the General Partner or appointment of a new General Partner.

### **KEY ADVISORS, EMPLOYEES AND CONSULTANTS OF IOTA**

Since the salvage of valuable shipwrecks is a highly technical business involving locating and recovering selected targets, IOTA must rely upon the assistance of employees and consultants in certain specialized areas. These areas include archives research, archeology, museology, electronic search, geophysics, microbiology, salvage planning and operations, engineering, computer and communications technology, security, preservation and restoration, and project management. IOTA has previously entered into agreements with employees and with key consultants/ contractors as needed in order to retain experts to assist IOTA in these areas. Since the search, salvage and research services for the Project will be performed by IOTA and its independent contractors and consultants, the success of the Project depends on the ability of IOTA to recruit as well as retain these experienced independent contractors and consultants. Below are summarized resumes of certain consultants and key employees who have agreed to work for IOTA in completing the Project.

**Jerry R. Roland, CPA, Administrative and Financial Advisor.** Mr. Roland is a retired senior administrative officer of Donaldson, Lufkin, and Jenrette, an international investment banking firm with total capital in excess of \$4.3 billion. During his 25 year career with Donaldson, Lufkin & Jenrette, Mr. Roland held several Accounting/Administrative positions with his final position being the Chief Financial Officer of the Capital Markets Group which included the majority of all the trading activities of the Firm. Prior to his employment at Donaldson, Lufkin & Jenrette he was an assistant controller at Goldman Sachs & Co. for 5 years. Prior to that he was employed by Haskins & Sells (now Deloitte & Touche) for 5 years.

Mr. Roland received his BS in Accounting from the University of South Dakota where he now is a Trustee of the USD Foundation and a member of the Foundation's Finance Committee.

**Donald G. Lohmann**, Business and Financial Advisor. Mr. Lohmann is a retired senior executive with Household International, Inc., an international financial services company with over \$30 billion of assets. During his 30-year career with Household International, Mr. Lohmann held numerous staff and managerial positions including that of V.P. Corporate Finance where he was responsible for the Company's long-term debt financing and was directly involved with corporate strategic planning. He also developed, and was the first President of, the Company's commercial lending activities, a business which focused on a variety of specialized financing including domestic and international aircraft, ocean going vessels, rail cars, manufacturing facilities and corporate lending to both large and small enterprises. Under Mr. Lohmann's direction, Household took ownership positions in a number of these small business enterprises, which required him and his staff to provide day-to-day managerial support for their operations.

Mr. Lohmann received his MBA from Northwestern Kellogg Graduate School of Management, where he remains active in alumni activities. He has also been listed in a number of editions of Who's Who in America.

**David Delison Hebb, Ph.D.**, Archives Research Contractor. Dr. Hebb received his Doctoral Degree from the University of London, his Masters Degree from the American University and completed undergraduate studies at Washington and Jefferson College. In 1975, Dr. Hebb was a lecturer in History at Shiller College, and continued such position at the University of Essex from 1976 through 1980. In 1981, Dr. Hebb joined Fathom-Line, Ltd., as a Research Historian and, in collaboration with Dr. Peter Earle, below, directly identified two Spanish Galleons. In addition he has conducted archive research on shipwrecks in Africa and Europe and has completed academic specialty courses in early modern marine insurance, and 16th and 17th Century maritime history. Dr. Hebb is a member of the Institute of Historical Research, University of London, and was a Captain in the United States Army from 1966 through 1970. Dr. Hebb has numerous research articles to his credit, including "Piracy and the English Government" (1994).

**Peter Earle, Ph.D.**, Archives Research Contractor. Dr. Earle received his Ph.D. in 1969, and completed his undergraduate studies at the University of London receiving a B.S.C. in Economics, in 1960. From 1960 through 1981, Dr. Earle held several positions in industry, academia and advertising relating to economic history. Dr. Earle conducted research for the book

"Wreck of the Almiranta" (1979), and "The Last Fight of the Revenge" (1992). Dr. Earle was responsible for the successful location in 1987 of the Spanish treasure Galleon, Concepcion, by the American Salvage Company, Seaquest, Inc. in the Dominican Republic.

From 1981 through 1988, Dr. Earle worked as a Research consultant on ancient shipwrecks for Fathom-Line Ltd. on a part-time basis leading to the location of two Spanish Galleons in 1987. Dr. Earle has numerous publications in maritime and economic history.

**Basil Hedrick, Ph.D.**, Anthropology and Museology consultant. Dr. Hedrick received his A.B. in History and Foreign Languages from Augustana College, his M.A. in Latin American Area Studies from the University of Florida, and his Ph.D., also in Latin American Area Studies, from Inter-American University, Mexico. His experience includes positions as Director of Museums, Archeology and Publications for the State of Michigan; Director of the University of Alaska Museum; Tenured Professor of History and Museum Science, University of Alaska; Dean of International Education, and Professor and Curator of Anthropology, Southern Illinois University; Director of the Southern Illinois Cultural Museum and Art Galleries; Professor of Spanish, Universidad Interamericana, Mexico; and many other academic, museum and archeological positions.

Dr. Hedrick's many awards and honors include numerous listings in "Who's Who In America", The Cross of Eloy Alfaro (awarded by the Panamanian Government for work done on their National Patrimony projects), Award of Merit, MMC/AAM (for service to U.S. museums),

Chairmanship of the University Museums National Committee (of the American Association of Museums), President of the

Illinois Archaeological Survey, and cultural liaison to the King of Nepal, as deputized by the U.S. Ambassador to Nepal.

Dr. Hedrick has published numerous books, articles and monographs on the subjects of anthropology, archeology and museology covering many Spanish speaking countries. He has also lectured in those countries on the same subjects.

**Daniel Koski-Karell, Ph.D., Consulting Archaeologist.** After receiving an Honorable Discharge from the U.S. Army, Daniel Koski-Karell began working in the field of Archaeology in 1972. The following year he was hired by the State of Florida as a Salvage and Exploration Field Agent assigned to supervise recovery work on wrecks of the 1715 Spanish Silver Fleet along the state's east coast, and the 1733 wreck of the Spanish ship *San José* in the Florida Keys. Later, after receiving his Master of Arts degree he established a terrestrial and underwater archaeological consulting business and has worked in that capacity ever since. Over the years he has provided consulting services for dozens of shipwreck projects in the United States and other countries. These have ranged from the excavation of wrecks in the project area for the I-95 Baltimore Harbor Tunnel to investigations of 16<sup>th</sup>, 17<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup>, and 20<sup>th</sup> century shipwrecks elsewhere in the United States as well as in Mexico, the Bahamas, Haiti, Puerto Rico, Canada, the Commonwealth of the Northern Mariana Islands, and the Caribbean and Mediterranean Seas.

Dr. Koski-Karell holds a Ph.D. in Anthropology from the Catholic University of America (2003), a Master of Arts degree in Anthropology specializing in Archaeology from The Catholic University of America (1976), and a Bachelor of Arts degree with a concentration in Archaeology from Cornell University (1969).

The agreements to perform services by these individuals do not constitute recommendations or endorsements of IOTA or this offering.

#### **Key Man Insurance**

IOTA does not carry key man life insurance on Jack Harbeston and are not expected to obtain any such insurance.

#### **COMPENSATION OF MANAGEMENT**

Jack Harbeston, as an employee of the General Partner of IOTA, will be compensated by IOTA, which compensation will be passed on as an expense of the Project based on the time spent on the Project.

Jack Harbeston, as the sole Shareholder of HFP, Inc., the General Partner of IOTA, is the beneficiary of a 25% interest in IOTA's income, gain and credit held in the name of HFP, Inc. In addition, HFP, Inc. owns 24.3 limited partnership interests in IOTA ("IOTA Units"), representing 7.7% of IOTA's income, gain, loss and credit, and Jack Harbeston owns beneficially through purchase 1.8 Units representing .57% of IOTA's income, gain, loss and credit. Jack Harbeston personally owns beneficially through purchase 15 Units of interest in SMRC, representing approximately 1.3% of SMRC's income, gain, loss and credit, and 51.7 Shares of interest in ROTA, again, by way of purchase, representing approximately 1.6% of ROTA's income, gain, loss and credit. See "CONFLICTS OF INTEREST/RELATED PARTY TRANSACTIONS". IOTA does not have any profit-sharing, pension, or other qualified deferred compensation plans.

#### **FIDUCIARY RESPONSIBILITY OF THE GENERAL PARTNER**

The General Partner is under a fiduciary duty to conduct the affairs of IOTA in the best interest of IOTA and its limited partners and consequently must exercise the utmost good faith and integrity in handling company affairs. Prospective investors who are concerned about the duties of the General Partner should consult with their legal counsels. See "CONFLICTS OF INTEREST/RELATED PARTY TRANSACTIONS."

**INDEMNIFICATION OF THE GENERAL PARTNER  
AND COMMISSION'S POLICY REGARDING  
INDEMNIFICATION FOR SECURITIES ACT VIOLATIONS**

The Partnership Agreement provides that neither the General Partner, or its employees and agents, or IOTA's employees and agents shall be liable, responsible or accountable in damages to IOTA or the limited partners of IOTA for any action taken or the failure to act on behalf of IOTA or a limited partner within the scope of the authority conferred upon them, unless such action or omission was performed or omitted fraudulently or in bad faith or constituted gross negligence. The Partnership Agreement also provides that IOTA will indemnify and hold harmless the General Partner, its employees and agents, and IOTA's employees and agents from and against any loss, liability, expense, damage or injury suffered or sustained by it by reason of any acts, omissions or alleged acts or omissions arising out of their activities on behalf of IOTA or in furtherance of the interests of IOTA, provided such acts, omissions or alleged acts or omissions were in good faith and were not performed or omitted fraudulently or in bad faith or as a result of gross negligence. The Subscription Agreement further provides that the Investors in the Units will indemnify IOTA, the General Partner and their agents and attorneys from any loss, damage or liability due to or arising out of a breach of any representation or warranty of the Investors set forth in the Subscription Agreement.

INsofar as INDEMNIFICATION FOR LIABILITIES ARISING UNDER THE SECURITIES ACT OF 1933, AS AMENDED, MAY BE PERMITTED TO PERSONS CONTROLLING IOTA PURSUANT TO THE FOREGOING, THE GENERAL PARTNER HAS BEEN INFORMED THAT IN THE OPINION OF THE SECURITIES AND EXCHANGE COMMISSION, SUCH INDEMNIFICATION IS AGAINST PUBLIC POLICY EXPRESSED IN THE SECURITIES ACT OF 1933, AS AMENDED, AND IS THEREFORE UNENFORCEABLE.

**CONFLICTS OF INTEREST/RELATED PARTY TRANSACTIONS**

The General Partner of IOTA and Jack Harbeston are only required to devote so much of their time to the business and affairs of IOTA as they, in their sole discretion, deem necessary. The General Partner of IOTA and Jack Harbeston may engage in or possess an interest in other business ventures to the extent it does not violate their fiduciary duty to IOTA. Neither IOTA, the limited partners of IOTA nor the Investors in the Units offered hereby have or will have any rights in or to such other business ventures or the income or profits derived from them or in any business opportunity discovered as a result of the other business activities of the General Partner or Jack Harbeston.

Mr. Harbeston is currently the sole owner and President of the General Partner of IOTA, and is the Manager of SMRC and ROTA. In this regard, the General Partner of IOTA, Mr. Harbeston, IOTA, the limited partners of IOTA and the investors in the Units offered hereby may have conflicts of interest arising from the operation of IOTA, the offering of the Units hereby, and the negotiation of agreements between IOTA and affiliates of IOTA, the outcome of which may adversely affect the interests of the investors in the Units. IOTA is responsible for reimbursement of all expenses incurred by its General Partner on behalf of IOTA. These expenses include salaries of officers, including Jack Harbeston, allocable to IOTA, and certain office expenses, supplies, insurance, and other miscellaneous expenses (office space, furniture and equipment have been provided by the General Partner to IOTA at no cost). The reimbursable expenses attributable to the Project will be charged as expenses of the Project and payable prior to repayment of the Non-Recourse Notes. See also "MANAGEMENT" and "COMPENSATION OF MANAGEMENT".

**RISK FACTORS**

THE SECURITIES BEING OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK. THE PURCHASE OF THESE SECURITIES SHOULD BE CONSIDERED ONLY BY PERSONS WHO CAN AFFORD TO SUSTAIN A TOTAL LOSS OF THEIR INVESTMENT. IN ANALYZING THIS OFFER, PROSPECTIVE PURCHASERS SHOULD CAREFULLY CONSIDER, AMONG OTHER FACTORS, THE FOLLOWING:

1. **Investment Suitability: Limitations on Transferability of Units.** Because of the limited number of Units expected to be sold and the limitations on transferability of the Non-Recourse Notes and Participation Rights (See Exhibit A and B), no public market is likely to develop for them. Furthermore, the Units have not been registered under the Securities Act of 1933 or the securities law of any state or the CNMI, and are being sold under an exemption thereto which restricts the resale and transfer of the Units. An investor will be required to retain ownership of the Units and bear the economic risk of his investment for an indefinite period of time. Thus, purchase of the Units is suitable only for a person of substantial means who does not anticipate that he will need to sell the Units in the near future. See "INVESTOR SUITABILITY STANDARDS".
2. **Investment Suitability: Risks Related to Taxes and Return of Investment.** There can be no assurance that the Project will be successful enough that the Loans will be repaid. Since the Loans are non-recourse (which means that IOTA, the General Partner, or any other persons are not liable for repayment of the loan except to the extent of the net proceeds from the Project), unless there are sufficient revenues from sale of artifacts from recovery of the Santa Margarita to pay all of the operating expenses related to the Project, including certain accrued expenses incurred prior to the date of this Memorandum (approximately \$400,000 as of December 31, 2003), the Loans will not be repaid. Furthermore, even assuming the Loans are repaid, Investors should be aware that there will be no return on the Participation Rights until after certain previous Investors receive their priority distributions. See "Exhibit E." Furthermore, it is not anticipated that under current applicable law investors in the Units will qualify for federal income tax deductions to be offset against other ordinary income including "passive trade or business activity" income. See "SUMMARY OF CERTAIN TAX RISKS AND ASPECTS."
3. **Additional Financing May Be Needed.** It is planned that the proceeds from this offering will be sufficient for completing the salvage of the Santa Margarita, and for marketing of the artifacts from the Santa Margarita. It is anticipated that additional working capital financing will be available on a traditional basis using the artifacts from the Santa Margarita as collateral, if needed. However, there can be no assurance that such financing will be available or that the proceeds from this offering, or any amount, will be sufficient to complete the Project, upon which a return on the Units is dependent. In the event additional financing is required to complete the Project, failure of IOTA to obtain such Project financing would adversely affect the business of IOTA and a return on an investment in the Units. See also "THE PROJECT".
4. **Risks Inherent in Marine Archeological Recovery and Recovery Operations.** The sole purpose of this offering is to finance the recovery and marketing of the artifacts from the Santa Margarita and to hold an investment in the profits from the Project allocable to IOTA, whose business is dependent upon successful marine recovery operations and related activities. There can be no assurance that the recovery of the Santa Margarita will be successful, or if successful that sufficient artifacts will be salvaged and sold to realize sufficient net proceeds from the Project to repay the Loans or realize a return on the Participation Rights. Risks inherent in marine salvage operations could adversely effect the outcome of the Project. Examples of these are:
  - a) Certain uncontrollable variables of weather and the sea may hamper, interfere with, or preclude archeological or salvage work at any time.
  - b) Archeological and recovery activities may subject salvage personnel and others to physical hardship and hazards. While IOTA intends to conduct the salvage operations with the safety of personnel being foremost, and intends to carry marine liability and property insurance, some risk still remains. There can be no certainty that insurance will fully protect IOTA and the Company from all claims. In the event of a claim for damages to personnel or property, the absence of full insurance protection may adversely affect the business of IOTA and the potential return on the Units.
  - c) Any marine recovery operation is subject to unknown and unpredictable expenses. The timing and duration of the permitting process and archeology and recovery activities may adversely influence the expenditures for personnel, capital equipment, security, transportation, restoration, and marketing of artifacts, which may adversely affect the profitability of IOTA and the potential return on the Units.

- d) There is the risk the Santa Margarita, or any target, was salvaged by unknown parties, whose records, if any, were not discovered by IOTA archivists.
- e) IOTA, the CNMI, the United States and other governments may not be able to provide adequate security.
5. **Government Regulation.** The business of IOTA is subject to a wide range of rules, regulations and laws promulgated by the CNMI, United States and other government agencies relating to surveys, archeology and recovery of shipwrecks. Such rules and regulations are enforced by government personnel who sometimes harbor ulterior motives, including opposition to profit making and regulatory extortion. Such personnel have proved very costly to the Project in terms of obstruction and delays. Although the present CNMI administration has operated in good faith and has publicly supported the project, there is no assurance that agency employees will take independent actions which again prove costly to IOTA. In this regard, there is a risk the Santa Margarita salvage cannot be completed or the salvage will be delayed because IOTA is unable or unwilling to comply with such requirements, either overtly or covertly. See "GOVERNMENT REGULATION."
6. **Marketing.** There is no guarantee that price levels and values pertaining to highly duplicated artifacts will continue to hold true in the future. Of the many artifacts recovered in the course of the Project, the CNMI government has an option to retain artifacts as part of its share. The vast majority of artifacts will be sold to recover the cost of the Project, and for profit, including cargo items that are duplicated by the thousands such as export-porcelain. Decisions made as to the place and time of auctions, and the scarcity, quality and historical significance of the artifacts offered, will affect the number of major bidders at such auctions as well as the amounts they will bid, and therefore may adversely affect the proceeds ultimately realized from the Project and the return on the investment in the Units. See "MARKETING AND DISTRIBUTION."
7. **Adverse Claimants to Shipwreck.** There is a risk that a third party may claim ownership in the Santa Margarita. A claimant could be a country claiming ownership. In this regard, the investors should be aware that Spain has made a claim to the Juno and Galga, two shipwrecks off the coast of Virginia, for which details can be obtained from the Manager if a potential investor desires. Spain's primary claim is that the shipwrecks were warships, even if they were on commercial ventures, and thus were never abandoned. Although this claim is in conflict with the 1987 Abandoned Shipwrecks Act (which gives ownership of abandoned shipwrecks to coastal states if the wrecks are found within three miles of the shore line), there can be no assurance that Spain's claim will not be upheld. In the event Spain is successful in its litigation, there is a risk Spain may also assert a claim for ownership of the Santa Margarita and other shipwrecks proposed to be salvaged by IOTA. It should be noted, however, that Spain's claim challenges the ownership of the local government, not the rights of the finder or salvor, whose rights will be determined by general maritime law, which may or may not be favorable to IOTA.
8. **Litigation.** Although the Company intends to avoid litigation when possible, there is a risk IOTA will be forced to become a party to legal proceedings to protect its rights in the Project or other salvage operations, the outcome of which could adversely affect the business of IOTA and a potential return on the Units. IOTA and the General Partner are not currently involved in any litigation which would adversely affect the income or proceeds from the Project or which could adversely affect a potential return of the Units; provided, potential investors in the Units should be aware that IOTA is engaged in litigation in Colombia with respect to IOTA's rights in the shipwreck San Jose, and further is in the process of defending a lawsuit by an adverse party claiming an interest in IOTA's rights to the San Jose. See "Litigation".
9. **Absence of Operating History.** IOTA was formed on October 21, 1988, and the Project is its first attempt at salvaging a shipwreck. There is no profitable operating history upon which an investor may base an evaluation of the likely performance of IOTA or the Project.
10. **Lack of Management Control by Investors in the Units.** Under the terms of this offering, the Investors in the Units have no right to participate in the management of IOTA or the Project or any decisions made by the General Partner. The success or failure of the Project depends upon the success or failure of IOTA. Accordingly, the investors in the Units, will entrust the entire operation and management of the Project to Jack Harbeston who has actively managed the affairs of IOTA for approximately fourteen years. However, there can be no assurance that Jack Harbeston will continue to manage IOTA or the

11. **Lack of Diversification.** All of the proceeds from this offering will be invested in the Project, the success of which substantially controls the return of the investment in the Units. To such extent, there will be no diversification of the investment by the investors in the Units or the business of IOTA.
12. **Failure to Complete Offering.** This offering calls for a minimum of 150 Units and maximum of 266 Units to be sold. IOTA has not received any commitment for the purchase of the Units. Since this offering is being made on a "all or none, best efforts" basis as to the first 150 Units and a "best efforts" basis with respect to the remaining Units offered hereby, there can be no assurance sufficient Units will be sold to obtain the minimum amount of proceeds necessary to move forward with the Project, or that if the minimum number of Units offered hereby, but less than the maximum number of Units offered hereby, are sold, there will be sufficient proceeds to finance the Project. See "Additional Financing May Be Needed" above.
13. **Arbitrary Offering Price.** The purchase price of the Units offered hereby does not necessarily bear a relationship to the assets, profits, losses, book value or other recognized criteria of valuation of a business venture. In arbitrarily determining the offering price, the General Partner considered such factors as the exclusivity of the CNMI Agreement, the survey of the site of the Santa Margarita, and various other risks involving this investment. The placement price set forth in this Memorandum, therefore, should not be considered a determination of the actual value of the Project, the artifacts on the Santa Margarita, or the assets or operations of IOTA.

#### SUMMARY OF CERTAIN TAX RISKS AND ASPECTS

The following statements are based upon the provisions of the Internal Revenue Code of 1986, as amended, (the "Code" or "IRC"), the applicable existing and proposed regulations thereunder, existing judicial decisions and current administrative rulings and practice, and what counsel for IOTA, in such counsel's opinion, believes to be the more important tax consequences of an investment in the Units. The following is not intended to be a complete summary of all tax attributes of an investment in the Units. In this regard, prospective investors are urged to consult with their own tax advisors.

The Units are not a suitable investment for an investor whose principal objective is to "shelter" taxable income from other sources. Since the Investors in the Units are loaning the proceeds from this offering to IOTA, all of the losses derived from the Project funded by such Loans will be allocated solely to IOTA. The Investors in the Units will not be permitted to take any of the net losses from the Project as a deduction on their individual income tax returns.

There are other tax consequences of an investment in the Units. A summary of certain of these factors is included herein. NO REPRESENTATION, WARRANTY OR ASSURANCE IS MADE HEREIN BY IOTA OR ANY PERSON CONNECTED WITH THIS TRANSACTION AS TO THE TREATMENT OF ANY ITEM OF INCOME, GAIN, LOSS OR CREDIT OF THE INVESTORS IN THE UNITS FOR FEDERAL INCOME TAX PURPOSES.

1. **Income Tax Returns.** Each year IOTA will furnish each Investor in the Units with a Form 1099 between the close of each calendar year and January 31. The Form 1099 will indicate each Investor's share of each item of interest income related to the Non-Recourse Notes, and income related to the Participation Rights. It will be each Investor's responsibility to prepare and file all appropriate tax returns which may be required as a result of an investment in the Units.
2. **Treatment of Interest Income.** Based upon current law, the interest income derived from the Non-Recourse Notes will be properly reported as ordinary income. The principal repayment of the Loans will not be taxed as either ordinary income or capital gain since it is a return of investment rather than income or profit. The payments on the Non-Recourse Notes in excess of the principal amount will also be treated as ordinary income. Each individual Investor will be required to report such interest income on Schedule A of Form 1040 and each partnership, limited liability company, sub-s corporation or c-corporation, will be required to report such interest income on their respective income tax forms. IOTA will not withhold any of the interest income payable to Investors in the Units for income tax purposes, and thus each Investor will be required to pay



over to the Internal Revenue Service, and if applicable, the Investors state taxing authority, estimated taxes with respect to the income paid under the terms of the Non-Recourse Notes.

3. **Income from Salvaging and Selling Artifacts Attributable to Participation Rights.** There is limited authority regarding the time of recognition and characterization of income resulting from salvage operations. It has been the position of the Internal Revenue Service that treasure trove, to the extent of its value in United States currency, constitutes gross income for the taxable year in which it is reduced to "undisputed possession". Treasury Regulations Section 1.61-14(a). It should be noted, however, that the timing of recognition of income resulting from finding treasure trove does not appear to anticipate the finder will be in the trade or business of salvaging, but anticipates a "windfall" for finding treasure which is reduced to "undisputed possession" and valued in United States currency. IOTA intends to assert that a salvor in the trade or business should not be required to recognize income from salvage operations until the artifacts are sold in the normal course of the trade or business. Nevertheless, it is possible that the Internal Revenue Service may assert that the Investors in the Units are in "undisputed possession" at the same time as IOTA gains possession of the artifacts since their interest in the proceeds from the disposition of the artifacts will more likely than not be substantially equivalent to a percentage of the value of the artifacts recovered. To the extent the valuables, if any, are deemed to be recovered and reduced to "undisputed possession" by IOTA, there is a risk that such recovery may constitute income to the Investors in the Units for the taxable year in which the artifacts are deemed to be reduced to "undisputed possession", but the cash proceeds from the sale thereof may not be available for distribution to the investors in the Units at such time, thus resulting in income to such Investors without distributions to cover the income taxes due.

The profits from the Project and the sale of the artifacts by IOTA, based upon current case law, appear to be properly reported as ordinary income. Appreciation of the value of recovered items after they have been reduced to possession (distributed in kind to Investors) will be taxed as ordinary income or capital gain, depending on the method and frequency of sale. Since it is more likely than not that IOTA will sell all of the artifacts and not make distributions directly to the Investors in the Units, all of the income derived from an investment in the Units will be taxes as ordinary income.

4. **Sale or Disposition of Units.** Although the transfer of the Units held by Investors is restricted (see "DESCRIPTION OF UNITS"), in the event an Investor were to sell his Units, such Investor would generally recognize capital gain to the extent of the money and fair market value of property received less his basis (or cost) in the Units. To the extent the amount received by the selling Investor is attributable to substantially appreciated inventory items, (for example, if the Investor has attributed income for his share in artifacts which are reduced to "undistributed possession" by IOTA, but before the artifacts are sold, as describe in "Income from Salvaging and Selling Artifacts Attributable to Participation Rights" above), such gain is treated as ordinary gain.

In the event an Investor gifts his Units, the Investor generally will not recognize gain except to the extent attributable to his share of unrealized receivables or substantially appreciated inventory items, as described above. Each Investor should consult with his or own tax advisor prior to the sale or other disposition of his or her interest in the Units.

5. **Investment Interest.** Interest paid or accrued on debt incurred to purchase investment property, such as interest paid on debt to acquire any Unit, it is not deductible by the Investors except to the extent of such Investors' investment income. Excess deductions may be carried over to deductions in future years.

6. **State and Local Income Taxes and Estate and Inheritance Tax Aspects.** In addition to the federal income tax consequences described above, prospective Investors should consider potential state and local income and inheritance taxes as well as federal and state tax consequences of an investment in the Units.

7. **Foreign Taxes.** This memorandum does not consider the impact of any foreign taxes. If a potential investor may be subject to foreign taxes, he should seek counsel to advise him with regard to the effect of such taxes on his investment in the Units. Furthermore, since the Project is subject to regulation by the CNMI Government, it is possible the income from the Project may be subject to CNMI taxes, which will reduce the distributable profits of IOTA. These taxes, if any, cannot be determined

with any certainty at this time.

8. **Future Federal Income Tax Legislation.** The foregoing statements are based upon the existing Code, the existing and proposed regulations thereunder, existing judicial decisions and current administrative rulings and practice. The Code or such interpretations could change at any time, and such change could have a retroactive effect so as to render all or a portion of the statements contained above inapplicable. In this regard, therefore, each potential investor is urged to obtain his own tax counsel.

### REPORTS TO INVESTORS

The General Partner will prepare and make available to each investor in the Units on or before January 31 of each year the federal income tax information for each such investor on Form 1099 for the preceding fiscal year showing the amount of income or interest which the investor is required to take into account on his individual federal income tax return. In addition, IOTA will provide information reports to be mailed to the investors, at reasonable intervals during each year.

### INTEREST OF COUNSEL TO THE COMPANY

Lauane C. Addis, of Stahl Cowen Crowley LLC, Chicago, Illinois, has acted as legal counsel for IOTA with respect to the Units offered hereby. In addition to cash compensation, Mr. Addis has previously agreed to defer a portion of his fees charged to IOTA in exchange for an interest in IOTA. Mr. Addis currently owns or has options for 1.828 IOTA Units of limited partnership interest representing approximately a .5% interest in IOTA. Mr. Addis also received a Unit in lieu of legal fees charged to IOTA for services rendered in connection with IOTA's private placement of Units in 2003.

## EXHIBIT A

### NON RECOURSE NOTE

## **EXHIBIT A**

### **NON RECOURSE NOTE**

Date: \_\_\_\_\_

Principal Sum: \$ \_\_\_\_\_

#### **1. Agreement to Pay:**

FOR VALUE RECEIVED, the undersigned, IOTA Partners Limited Partnership, a State of Idaho limited partnership, (herein called "Debtor"), promises to pay to the undersigned Lender, (the "Lender"), the principal sum of set forth herein above in the manner provided for herein. Repayment of the principal sum together with interest shall be made as hereinafter provided for in Paragraph Three (3) of this Non Recourse Note.

#### **2. Use of Proceeds:**

Proceeds from this Non Recourse Note are to be used by the Debtor only for the purposes of completing the Project as defined in the Participation Rights Agreement, between Lender and Debtor of even date herewith ("Participation Rights Agreement").

#### **3. Payment of Principal and Interest:**

Principal and interest hereunder shall be paid solely from the profits of the Project as follows:

- (a) During the first two (2) years after the date hereof, this Non Recourse Note shall accrue interest at an annual rate of seventeen percent (17%) compounded annually. From two (2) years after the date hereof until all accrued interest and principal due hereunder has been paid or the Maturity Date (hereinafter defined) this Non Recourse Note shall accrue interest at an annual rate of ten (10%) percent compounded annually.
- (b) Upon receipt of the initial proceeds from the sale of artifacts recovered during the Project, Debtor shall pay Lender a pro rata share (equal to the principal sum of the this Non Recourse Note divided by the sum of all of the principal sums of all of the Non Recourse Notes issued by IOTA in the Offering as defined in the Participation Rights Agreement) of such proceeds. Debtor shall continue to make such payments to Lender of Lender's pro rata share of the proceeds from the sale of the artifacts recovered during the Project until such time as the principal sum of this Non Recourse Note and all accrued and unpaid interest thereon is paid in full.
- (c) Notwithstanding anything to the contrary in (a) and (b) above, the entire outstanding principal balance hereunder, together with all accrued but unpaid interest and all other

sums evidenced hereby, shall be due and payable five (5) years after the date hereof (the "Maturity Date").

**4. Default Rate:**

In the event that there shall occur:

- (a) Any default hereunder that remains uncured upon the expiration of any applicable grace or cure period; or
- (b) Maturity of the indebtedness evidenced hereby, whether by passage of time, acceleration, declaration or otherwise;

then in any such event, until the default or event of default is cured, the entire unpaid principal balance hereof and any unpaid interest hereunder, shall thereafter bear interest at the rate of four (4%) percent above the currently applicable interest rate as provided in this Non Recourse Note.

**5. Method and Place of Payment:**

Payments upon this Non Recourse Note shall be made in lawful money of the United States of America that shall be legal tender for public and private debts at the time of payment, and shall be made at such place as the Lender may from time to time in writing appoint, provided that in the absence of such appointment all payments hereon, shall be made to the Lender at the address set forth below.

**6. Prepayment Privilege:**

The Debtor shall have the right at any time or times, without penalty, to make payments of Non Recourse, up to the entire unpaid balance thereof, provided that there is paid with each such payment all interest accrued and unpaid on the amount thereof to the date of payment. The making of such additional payments, if less than the entire unpaid balance, shall not affect the obligation of the Debtor to make payments of interest and the date(s) succeeding the date that any such additional payment is made.

**7. Cost of Enforcement and Defense:**

In the event that proceedings at law or in equity, or bankruptcy, receivership or other legal proceedings are instituted or threatened in connection with the enforcement of this Non Recourse Note by Lender and Lender prevails in said proceedings then in such event Debtor hereby agrees to pay all documented costs, including reasonable attorneys fees, actually incurred by Lender in enforcing Lender's rights under this Non Recourse Note.

**8. Business Purpose:**

Debtor represents that the loan evidenced by this Non Recourse Note is a business loan within the purview and intent of the Revised Code of the State of Washington (RCW Section 19.52.080) and that the Debtor

specifically agrees to pay interest on said loan at the rates and under the terms specified in this Non Recourse Note.

**9. Captions:**

The captions to the Paragraphs of this Non Recourse Note are for convenience only and shall not be deemed part of the text of the respective Paragraphs and shall not vary, by implication or otherwise, from any of the provisions of this Non Recourse Note.

**10. Governing Law:**

This Non Recourse Note shall be governed by the laws of the State of Washington.

**11. Waivers:**

All parties hereto severally waive presentment for payment, notice of dishonor, protest and notice of protest.

**12. Severability:**

If any provision or word, term, clause, or part of any provision of this Non Recourse Note shall be invalid for any reason, the same shall be ineffective, but the remainder of this Non Recourse Note and of the provisions shall not be affected and shall remain in full force and effect.

**13. Lender's Option of Waiver:**

Any term or condition of this Non Recourse Note may be waived by the Lender, but no such waiver shall affect or impair the rights of the Lender to require observance, performance, or satisfaction either of the term or condition as it applies on a subsequent occasion or of any other term or condition of this Non Recourse Note.

**14. Notice:**

All notices to the Lender and Debtor to be given under any of the provisions hereof shall be in writing. Any notices from Lender shall be deemed to have been duly and sufficiently given if a copy thereof has been mailed by United States registered or certified mail in an envelope properly stamped and addressed or sent by courier service, with receipt, to Debtor at the Debtors' address or at such other address as Debtor may have theretofore designated by written notice to Lender; and any notices or demands from the Debtor to Lender shall be deemed to have been duly and sufficiently given if mailed by United States registered or certified mail in an envelope properly stamped and addressed or sent by courier service, with receipt, to Lender at Lender's address set forth below or at such other address or to such other agent as Lender may theretofore have designated by written notice to the Debtor. The effective date of any mailed notice shall be three (3) days after delivery of the same to the United States Postal Service.

## 15. Limitation of Liability

Anything herein contained to the contrary notwithstanding, the Lender shall look solely and only to the Profits Derived from the Project as defined in the Participation Rights Agreement for the repayment of the principal sum and interest under this Non Recourse Note. Neither the Debtor, nor any officer, director or shareholder of Debtor, if Debtor is a corporation, nor any partner of Debtor, if Debtor is a partnership, nor any disclosed or undisclosed principal for whom the Debtor may be acting, nor any of their respective heirs, administrators, executors, personal representatives, successors and assigns, shall have any personal liability or other personal obligation or any liability for a deficiency for or with respect to any payment, performance or observance of any amount, obligation, liability or provision to be paid, performed or observed under this Non Recourse Note and the Lender agrees not to seek or obtain a deficiency, money judgment or other judgment against the Debtor, against any officer, director or shareholder of Debtor, if Debtor is a corporation, against any partner of Debtor, if Debtor is a partnership, against any disclosed or undisclosed principal for whom Debtor may be acting or against any of their respective heirs, administrators, executors, personal representatives, successors or assigns.

## 16. Assignment by Lender

Except by operation of law, this Non-Recourse Note may not be assigned, transferred or negotiated by either party without the other party's consent in writing.

**IN WITNESS WHEREOF**, Debtor has executed and delivered this Non Recourse Note in King County, as of the day and year first above written.

DEBTOR:  
IOTA Partners Limited Partnership

By: \_\_\_\_\_  
Jack Harbeston, President of HFP, Inc., General Partner

Attest:

By: \_\_\_\_\_  
Edris Harbeston, Secretary of HFP, General Partner

Address:  
15600 N.E. 8<sup>th</sup> Street  
Suite B1-462  
Bellevue, WA 98008

## **EXHIBIT B**

### **FORM OF PARTICIPATION RIGHTS AGREEMENT**

**Partnership Counsel  
Stahl Cowen Crowley LLC  
55 West Monroe Street  
Suite 500  
Chicago, Illinois 60603  
312.641.0060**



**EXHIBIT B**

**FORM OF  
PARTICIPATION RIGHTS AGREEMENT**

Partnership Counsel  
Stahl Cowen Crowley LLC  
55 West Monroe Street  
Suite 500  
Chicago, Illinois 60603  
312.641.0060

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THIS PARTICIPATION RIGHTS AGREEMENT is entered into the date last written below, by and between IOTA Partners Limited Partnership, an Idaho Limited partnership ("IOTA"), and the undersigned individual ("Investor"), who shall become party to this Agreement by executing a copy of the counterpart signature page and such other documents as may be required by the Partnership and who is accepted as an Investor by IOTA.

## RECITALS

- A. IOTA is engaged in the salvage of a shipwreck known as the Santa Margarita located within the jurisdictional boundaries of the Commonwealth of the Northern Mariana Islands, and with the marketing of artifacts recovered from the Santa Margarita; and
- B. IOTA and the Government of the Commonwealth of the Northern Mariana Islands entered into the Santa Margarita Salvage Agreement dated September 15, 1997, which grants IOTA exclusive rights to salvage the Santa Margarita shipwreck through 2021; and
- C. It has been proposed that IOTA borrow the capital required for finishing salvage operations on the Santa Margarita during the years 2003 and 2004 in the amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) from the sale of Units as more specifically defined and described in IOTA's Private Placement Memorandum dated December 13, 2002, 2002; and
- D. As additional consideration to the individuals who loan money to IOTA, it has been proposed that such individuals, such as the Investor, will receive certain rights to participate in the profits realized by IOTA from the salvage of the Santa Margarita and the marketing of artifacts found on the Santa Margarita pursuant to the terms and conditions of this Agreement set forth below.

NOW THEREFORE, in consideration of the mutual covenants and promises set forth in this Agreement, the parties agree as follows:

## ARTICLE 1 - DEFINITIONS

- 1.1 "Agreement" shall mean this Participation Rights Agreement.
- 1.2 "CNMI" shall mean the Commonwealth of the Northern Marian Islands.
- 1.3 "CNMI Agreement" shall mean the Santa Margarita Salvage Agreement between IOTA and the CNMI dated September 15, 1997.

1.4 **"Effective Date"** shall mean the date on which the terms and conditions specified in Section 4.1 of this Agreement are satisfied.

1.5 **"Funds"** shall mean the cash proceeds from the Non Recourse Note loaned to IOTA by the Investor under the terms of the Non Recourse Note and as indicated on the Counterpart Signature Page attached hereto.

1.6 **"Gross Revenues Derived from the Project"** shall mean proceeds from the sale of artifacts recovered from the Santa Margarita, royalties from the license of intangibles, and revenues of every other kind and nature paid to IOTA or for the benefit of IOTA as a result of the Project.

1.7 **"IOTA"** shall mean IOTA Partners Limited Partnership, a State of Idaho limited partnership.

1.8 **"Net Proceeds Agreements"** shall mean the agreements entered into by IOTA and certain investors purchasing an interest in the profits derived from the project prior to the date of this Agreement.

1.9 **"Net Proceeds Investors"** shall mean investors in the Net Proceeds Agreements.

1.10 **"Non Recourse Note"** shall mean that certain note issued by IOTA on the effective date of this Agreement evidencing Investors loan of the Funds to IOTA.

1.11 **"Offering"** shall mean IOTA's current efforts to raise capital under the terms of the Offering Memorandum.

1.12 **"Offering Memorandum"** shall refer to the IOTA Partners Limited Partnership Private Placement Memorandum of Non Recourse Notes and Participation Rights dated February 5, 2004.

1.13 **"Participation Rights"** shall mean the rights of the Investor in the Profits Derived from the Project as described in Section 3.1.

1.14 **"Party or Parties"** shall mean either or both IOTA and/or Investor or any other person or entity that becomes an assignee or successor in interest to IOTA or the Investor or a signatory to this Agreement.

1.15 **"Priority Payments"** shall mean any payments of the Profits Derived from the Project that shall, by contractual obligation undertaken by IOTA prior to the date of this Agreement, be paid to Rota Recovery Company, Santa Margarita Recovery Company, or Net Proceeds Investors prior to the distribution of Profits Derived from the Project to IOTA pursuant to the terms of the Rota Agreement, SMRC Agreement and Net Proceeds Agreements.

**1.16 "Profits Derived from the Project"** shall mean IOTA's share of all of the Gross Revenues derived from the Project, less all of the expenses, direct and indirect, allocated to the Project, and less the allocation of income, proceeds and profits to the CNMI pursuant to the terms of the CNMI Agreement, and less all Priority Payments, all as determined pursuant to generally accepted accounting principals, consistently applied.

**1.17 "Project"** shall mean salvage and marketing of artifacts found at the site of the shipwreck of the Santa Margarita undertaken by IOTA.

**1.18 "Proportionate Share"** shall mean a fraction, the numerator of which shall be the principal sum of the Non Recourse Note and the denominator of which shall be the aggregate total of the principal sums of all of the Non Recourse notes issued by IOTA in the Offering.

**1.19 "Rota Agreement"** shall mean that certain financing agreement by and between IOTA and Rota Recovery Company, dated February 1999. Pursuant to which Rota Recovery Company provided capital for the Project in exchange for an interest in the Profits and Losses Derived from the Project.

**1.20 "Rota Recovery Company"** shall mean Rota Recovery Company, LLC, a Washington Limited Liability Company, organized on February 19, 1999.

**1.21 "SMRC Agreement"** shall mean that certain agreement by and between Rota and the Santa Margarita Recovery Company dated February 5, 1996, pursuant to which Santa Margarita Recovery Company provided financing for the Project in exchange for an interest in the profits and losses derived from the Project described in the Offering Memorandum.

**1.22 "Santa Margarita Recovery Company"** shall mean Santa Margarita Recovery Company, LLC, a Washington Limited Liability Company, organized on February 5, 1996.

## **ARTICLE 2 - TERMS OF FINANCING**

### **2.1 Covenants Of The Investor and IOTA.**

On the Effective Date the Investor shall deliver and pay over to IOTA, in cash, the principal amount set forth in the Non Recourse Note. As additional consideration for the Investor loaning the Funds to IOTA, IOTA hereby grants the Participation Rights to the Investor subject to the terms and conditions of this Agreement.

### **2.2 Use Of Funds.**

All of the Funds delivered to IOTA under the Non Recourse Note shall be used for payment of the expenses, direct and indirect, of completing the Project and dividing the Profits, if any, Derived from the Project, as hereafter provided, and IOTA does hereby agree to so use the Funds. Notwithstanding the foregoing, nothing herein shall prohibit IOTA from raising

additional capital for the completion of the Project or otherwise selling any interest in IOTA or the Profits Derived from the Project; provided such does not change the percentage interest of Investor in the Profits Derived from the Project.

### **ARTICLE 3 - PARTICIPATION RIGHTS**

#### **3.1 Investors Participation Rights.**

At the time or times set forth in this Agreement, IOTA shall deliver and pay to Investor Profits Derived from the Project up to and including the following amounts:

- (a) As a priority payment of the initial Profit Derived from the Project, the Investor's Proportionate Share of all investments by investors in the Units defined in the Offering Memorandum up to an amount equal to twice the principal sum of the Non Recourse Note prior to use or distribution by IOTA of the Profits Derived from the Project; and
- (b) For each Five Thousand Dollars (\$5,000) loaned to IOTA, .16% percent (.16%) of the Profits Derived from the Project until IOTA receives Fifty Million Dollars (\$50,000,000.00) of Gross Revenues Derived from the Project, exclusive of the amounts paid to the investors in the Offering under (a) above; and
- (c) Thereafter .04% of the Profits Derived from the Project for each Five Thousand Dollar (\$5,000) loaned to IOTA.

All amounts due and payable to the Investor under (a) above shall be paid to Investor at or before the earlier of (i) the first distribution to the Limited Partners of IOTA, or (ii) at or before the payment of any expenses of IOTA other than expenses incurred in calculating the Profits Derived from the Project. The amounts to be paid to Investor under (b) and (c) above shall be paid to Investor at the same time the Profits Derived from the Project are distributed to the Limited Partners of IOTA, from time to time.

#### **3.2 Relationship of the Parties.**

Notwithstanding anything herein to the contrary, in no event shall Investor be deemed a limited partner or other equity holder of IOTA, a member or other equity holder of Rota Recovery Company or Santa Margarita Recovery Company, or a Net Proceeds Investor, nor have any rights with respect thereto, it being understood by the parties and acknowledged by Investor that Investor's interest in IOTA, Rota Recovery Company, Santa Margarita Recovery Company, the Net Proceeds Agreements, or the Project is limited to the terms and conditions set forth in this Agreement. In no event shall Investor be deemed an employee, in joint venture or partner of IOTA, Rota Recovery Company or Santa Margarita Recovery Company for any purpose. The Investor shall not be entitled to receive or review proprietary or confidential information regarding the Project or any other matter.

## **ARTICLE 4 - GENERAL TERMS**

### **4.1 Effective Date.**

This Agreement shall become effective on the date of the latter of the following:

- a) The date of this Agreement; or
- b) The date Investor delivers the Funds to IOTA.

### **4.2 Purpose.**

The sole purpose of this Agreement shall be to provide financing for the Project, allocate Profits Derived from the Project between IOTA and the Investor, and to perform such activities as shall be necessary to carry out the foregoing.

### **4.3 Management of the Project.**

IOTA shall have sole authority, power and control over the Project, and is hereby authorized and empowered to take such action, not otherwise in breach of this Agreement, as necessary in the sole discretion of IOTA to further and complete the Project notwithstanding that such actions may result in a complete loss of the Funds. Without limiting the foregoing, IOTA shall have the authority to obligate itself and, to borrow Funds in its own name in order to complete the Project using the assets of IOTA as collateral for such loans, including artifacts salvaged from the Santa Margarita, to enter into such agreements with independent contractors and other third parties for completion of the Project, to negotiate and renegotiate any and all matters with the CNMI Government or any other party as deemed necessary by IOTA to complete the Project, and to take such other action, irrespective of its effect on the Profits Derived from the Project, deemed necessary by IOTA to complete or terminate the Project. IOTA and its general partner shall have no obligation to repay the Funds or the Non Recourse Notes, or satisfy the Participation Rights, except out of the Profits derived from the Project.

### **4.4 Other Competing Businesses.**

Except as otherwise provided herein, nothing contained in this Agreement shall be deemed to restrict in any way the freedom of the Investor or IOTA, or any affiliate of either, to independently conduct any business or activity whatsoever, even though such business or activity may be in competition with the Project or the other party's business, without any accountability to the other party.

## ARTICLE 5 - TERMINATION

### 5.1 Dissolution and Termination.

This Agreement shall continue until terminated in accordance with provisions of this Article. No party shall have the right to, and each Party agrees not to attempt to, terminate this Agreement except as provided for in this Agreement.

### 5.2 Events of Termination.

This Agreement shall terminate upon the first to occur of the following, and for no other reason:

- b) Upon the unanimous written agreement of the parties hereto; or
- c) Upon the completion of the Project, the payment of all creditors related to the Project and payment to Investor of Investor's share of the Profits Derived from the Project as provided in Section 3.1; or
- d) Upon the occurrence of any of the following:
  - 1) IOTA applies for, consents to or acquiesces in the appointment of a trustee, receiver or other custodian for IOTA or any property of IOTA, or makes a general assignment for the benefit of its creditors; or
  - 2) In the absence of such application as described in 1. above, consent or acquiescence, a trustee, receiver or other custodian is appointed for IOTA or for a substantial part of its property and is not discharged within thirty (30) days; or
  - 3) Any bankruptcy, reorganization, IOTA arrangement, or other case or proceeding under any bankruptcy or insolvency law, or any liquidation or dissolution proceeding is commenced in respect of IOTA and if such case or proceeding is not commenced by IOTA, is consented to or acquiesced in by IOTA or remains undismissed for thirty (30) days.

## ARTICLE 6 - MISCELLANEOUS

### 6.1 Assignment.

Without the prior written approval of the other Party, which approval may be withheld for any reason whatsoever, neither Party may voluntarily assign their interest in this Agreement to any third party; provided in the event of an involuntary assignment of operation of law, or a



voluntary assignment approved by all Parties, immediately upon such assignment, the assignee shall become a Party to this Agreement, agree to be bound by all the terms hereof, and expressly assume in writing all of the obligations of the assigning Party under this Agreement, including all obligations hereunder not theretofore discharged by such assigning Party.

## **6.2 Notices.**

All notices to the Investor and IOTA to be given under any of the provisions hereof shall be in writing. Any notices from Investor shall be deemed to have been duly and sufficiently given if a copy thereof has been mailed by United States registered or certified mail in an envelope properly stamped and addressed or sent by courier service, with receipt, to IOTA at IOTA's address or at such other address as IOTA may have theretofore designated by written notice to Investor; and any notices or demands from IOTA to Investor shall be deemed to have been duly and sufficiently given if mailed by United States registered or certified mail in an envelope properly stamped and addressed or sent by courier service, with receipt, to Investor at Investor's address set forth below or at such other address or to such other agent as Investor may theretofore have designated by written notice to IOTA. The effective date of any mailed notice shall be three (3) days after delivery of the same to the United States Postal Service.

## **6.3 Amendment.**

This Agreement may not be amended except by a written instrument executed by all Parties.

## **6.4 Applicable Law.**

This Agreement and the performance of the Parties hereunder shall be interpreted, construed and enforced in accordance with the laws of the State of Washington and no presumption shall be deemed to exist in favor of or against either Party as a result of the preparation and/or negotiation hereof.

## **6.5 Entire Agreement.**

This Agreement constitutes the entire agreement between the Parties hereto relating to the subject matter hereof and there are not other understandings, representations or warranties, oral or written, relating to the subject matter of this Agreement, that shall be deemed to exist or to bind any of the Parties hereto, their respective successors or assigns except as referred to herein.

## **6.6 Further Assurances.**

Each Party shall execute such deeds, assignments, endorsement and other instruments and evidences of transfer, give such further assurances and perform such acts as are or may become necessary or appropriate to effectuate and to carry out the provisions of this Agreement. All such deeds, assignments, endorsements and other instruments and evidences of transfer and all other acts of any kind that are to be delivered as of the date of this Agreement shall be delivered or taken as soon as possible following the date of this Agreement.

#### **6.7 Third Parties.**

No person not a party to this Agreement (including any employee or owner of either Party) shall have or acquire any rights by reason of this Agreement nor shall any Party hereto have any obligations or liabilities to such other person by reason of this Agreement.

#### **6.8 Admission of Additional Parties.**

Except as provided in Section 6.1 hereof, no additional persons may become party to this Agreement except upon the unanimous consent of the Parties in writing and upon such terms and conditions as the Parties may agree.

#### **6.9 Severability.**

If any provisions of this Agreement or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of the Agreement and the Application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

#### **6.10 Binding Agreement.**

Subject to the restriction on transfers and other dispositions set forth herein, this agreement shall inure to the benefit of and be binding upon the undersigned Parties and their respective successors and assigns.

#### **6.11 Headings.**

The headings of Articles and Sections in this agreement are for convenience only and are not part of this Agreement.

**COUNTERPART SIGNATURE PAGE**

IN WITNESS WHEREOF, the Parties hereto have executed and delivered this Agreement in the State of \_\_\_\_\_ as of the \_\_\_\_ day of \_\_\_\_\_, 200\_\_.

INVESTOR:

IOTA Partners Limited Partnership

\_\_\_\_\_  
Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

EIN/SSN \_\_\_\_\_

By: \_\_\_\_\_  
Jack Harbeston, president of HFP, Inc.,  
General Partner

Attest: \_\_\_\_\_  
By: \_\_\_\_\_  
Edris Harbeston, Secretary of HFP, General  
Partner

Address:  
15600 N.E. 8<sup>th</sup> Street  
Suite B1-462  
Bellevue, WA 98008

Funds loaned to IOTA: \$ \_\_\_\_\_ representing \_\_\_\_\_ Units

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**EXHIBIT C**

**OPINIONS OF CONSULTING EXPERTS RE  
TREASURE LOCATION ON SHIP**

\*\*\*\*\*  
OPINION OF DR. DAVID HEBB AS TO THE LOCATION OF VALUABLES ON GALLEONS  
Received by E-mail from Dr. David Hebb, historical researcher, October 22,  
2002:

Dear Jack,

First, let me say how impressed both Peter and I have been with the fortitude of the whole team this last season and with the sheer bad luck we have had with weather. Let's hope for a spot of good luck next year!

In regard to your question on valuable cargo, it was normally the practice to put treasure shipments toward the stern of the vessel, near the Captain's cabin or officer quarters for safety reasons; such a position would assist in preventing possible stealing and it would also prevent damage or loss if the vessel struck a reef since the damage would most likely be to the bows, and, if lucky, the cargo might be got off before the water rose too high. Such a location would also be attractive in similar wreck circumstances since it would prevent treasure boxes being ripped open and the coins/bars disbursed on the seabed/reef. Merchant goods would be located throughout the holds and on deck, but I should think a prudent merchant would wish to have his valuable cargo located more midships/astern and not on the lower deck for much the same reasons. Whether such preferences were possible, I cannot say, but I can see no reason why not. I know that Portuguese merchants were able to arrange for royal pepper shipments to be placed low down in the holds where the risks of water damage from leaks, etc., were greater, rather than have their own cargoes stored there; these cargoes were placed higher where storage was more secure.

Hope this is of some help.

Yours sincerely,

David

\*\*\*\*\*  
OPINION OF DAN KOSKI-KARELL AS TO THE LOCATION OF THE STERNCastle AND ITS  
CONTENTS

Note: the following E-mail from Dan Koski-Karell was received November 19, 2002. It addresses the question of what part of the Santa Margarita remains to be excavated, and the type of artifacts we can expect to find there. Dan Koski-Karell is IOTA's Principal Archeologist for the recovery of the Santa Margarita, and has experience on many similar ships. He will receive his Ph.D. in Archeology in the spring of 2003.

Jack,

I am sending this email describing my assessment of the Santa Margarita wreck site to document our discussion this morning. This interpretation is based on available data, which I believe is strong support for the views expressed.

The distribution and character of shipwreck materials encountered at the site suggest that when the Santa Margarita drifted toward shore it struck the reef face in the area west of the sand pit. The vessels' orientation at the instant of impact is not clear, but there is evidence suggesting it settled to the bottom with the sterncastle part of the ship near the reef scarp and the bow pointed towards the Sand Pit.

There is a substantial concentration of artifacts and associated magnetic anomaly in the plateau area and depression-like pocket in the reef scarp vicinity. Further downslope on the reef face there is an associated shipwreck material concentration that extends toward the sand pit. The concentration in the relatively shallow water area near the reef scarp includes glass and translucent materials that may be glazing from the ship's sterncastle windows. Other artifacts, including ivory carvings and quality porcelain found in the reef scarp vicinity, are also materials that could have been associated with higher status persons like those who occupied the vessel's sterncastle area during the voyage.

A substantial amount of weapons-related artifacts has also been encountered in the area between the scarp and the reef face that slopes to the sand pit. Materials of this nature were usually stored in a vessel's ammunition magazine/weapon storage area, which was commonly located in the lower hull sternward from the main hold, below the forward portion of the sterncastle.

Further downslope towards the sand pit, artifacts encountered include a great deal of ballast stone, abundant wood fragments, and bulk cargo items such as sherds of trade porcelain, tachons, and copper ingots. Materials of this nature are likely to have been contained in the vessel's center portion main cargo hold area. A continuing distribution of these materials extends further downslope towards the sand pit. Changes in this distribution's character and quantity suggest it may represent materials that moved downslope towards the vessel's bow area after the wrecked ship settled on the bottom.

Since 1996 the project's recovery work has extended farther and farther upslope from the sand pit area. During this work the character of materials recovered has changed towards a greater frequency of artifact types potentially more likely to be in the vessel's stern portion than elsewhere on the ship. Along with the appearance and significant frequency of weaponry and higher-quality items, the level of artifact preservation has also changed as excavations have moved nearer the reef scarp. Materials found higher up the reef slope near the scarp appear in general to be preserved better than materials from further downslope.

Finds made from excavations in the area near the base of the reef scarp suggest that the shipwreck site's main deposit of high-quality, well preserved artifacts is likely to be located there. Based on the nature and distribution of materials recovered to date, my assessment of the Santa Margarita site may be summarized as follows: I believe it is likely that materials recovered from the site's reef scarp vicinity may exceed the

overall volume and quantity of artifacts recovered over the entire course of the project to date. Also, that the quality of materials encountered near the scarp will reflect association with higher status persons and the vessel's most valued cargo such as are likely to have been concentrated in the ship's sterncastle area. I also believe that the overall character of artifact preservation in the reef scarp area will be better than previously encountered elsewhere at the wreck site. If you have any questions or wish to clarify or discuss anything concerning this assessment, please contact me.

Sincerely,

Dan Koski-Karell

**EXHIBIT D**

**FINANCIAL STATEMENTS OF  
IOTA AS OF DECEMBER 31, 2002**

**Note:** At the time this Private Placement Memorandum was issued (2-5-04) the most recent Financial Statements were for FY 2002. If you wish to review the FY 2003 Financial Statements, which will be available in April, 2004, please contact the General Partner (425-641-2919)



**IOTA Partners Limited Partnership**

**(An Idaho Limited Partnership)**

**Balance Sheet -  
Income Tax Basis**

**December 31, 2002  
(Unaudited)**

**Assets**

Current assets:

Cash	\$ 35,515
Receivable from consultant and limited partners	2,680
Inventory (note2)	<u>2,587,173</u>
<b>Total current assets</b>	<b>2,625,368</b>

Non-current assets:

Equipment, at cost	404,789
Less: accumulated depreciation	<u>(312,947)</u>
Equipment, net	91,842

Accounts receivable - Sea Search Armada (note 3)	120,905
Allowance for doubtful accounts	<u>(120,905)</u>
Accounts receivable, net	-

Other assets	<u>741</u>
<b>Total non-current assets</b>	<b>92,583</b>

<b>Total assets</b>	<b><u>\$ 2,717,951</u></b>
---------------------	----------------------------

**LIABILITIES AND PARTNERS' CAPITAL (Deficit)**

Current liabilities:

Accrued expenses	\$ 31,556
Commission payable	3,214
Withholding Taxes Payable	840
Due to General partner (note 5)	320,000
Payable to an affiliate (notes 4 and 6)	<u>3,108,289</u>
<b>Total current liabilities</b>	<b>3,463,899</b>

Contingent obligations (note 6)

Partners' capital (deficit) (notes 8, 9 and 10)

General partner	(28,114)
Limited partners	<u>(717,834)</u>
<b>Total Partners' Capital (Deficit)</b>	<b>(745,948)</b>

<b>Total Liabilities and Partners' Capital (Deficit)</b>	<b><u>\$ 2,717,951</u></b>
--	----------------------------

*See accompanying notes to financial statements.*

**IOTA Partners Limited Partnership**

**(An Idaho Limited Partnership)**

**Statement of Operations -  
Income Tax Basis**

**Year Ended December 31, 2002  
(Unaudited)**

**Income:**

Interest bearing deposits with banks	\$ 67
Allocated expenses to joint venture (ROTA)	39,693
<b>Total income</b>	<u>39,760</u>

**Operating expenses:**

Research and discovery	59
Salvage and excavation	286,636
Less amount capitalized (note 2)	<u>(250,576)</u>
Net salvage and excavation	36,060
Administrative expenses (note 5 )	27,774
<b>Total operating expenses</b>	<u>63,893</u>
<b>Net loss</b>	<u><u>\$ (24,133)</u></u>

*See accompanying notes to financial statements.*

**IOTA Partners Limited Partnership**

**(An Idaho Limited Partnership)**

**Statement of Changes in Partners' Capital (Deficit) -  
Income Tax Basis**

**Year Ended December 31, 2002  
(Unaudited)**

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Partners' deficit at December 31, 2001	\$ (27,828)	\$ (693,987)	\$ (721,815)
Net loss	(286)	(23,847)	(24,133)
Partners' deficit at December 31, 2002	<u>\$ (28,114)</u>	<u>\$ (717,834)</u>	<u>\$ (745,948)</u>

*See accompanying notes to financial statements.*

**IOTA Partners Limited Partnership**

**(An Idaho Limited Partnership)**

**Statement of Cash Flow -  
Income Tax Basis**

**Year Ended December 31, 2002  
(Unaudited)**

**Cash flow from operating activities:**

Net loss \$ (24,133)

Adjustments to reconcile net loss to net cash  
used in operating activities:

Cost capitalized, as inventory (363,367)

Increase in fixed assets (5,216)

Depreciation of equipment 39,543

(Increase)/decrease in other assets (1,167)

(Decrease)/increase in accrued expenses 28,672

Increase in due to general partner 90,000

Increase in Withholding Taxes Payable 840

**Net cash used in operating activities** (234,828)

**Cash flow provided by financing activities:**

Advance from Santa Margarita Recovery Co., L.L.C. 3,000

Advance from Rota Recovery Co., L.L.C. 250,576

**Net increase (decrease) in cash** 18,748

Cash at beginning of year 16,767

Cash at end of year \$ 35,515

See accompanying notes to financial statements.

**IOTA PARTNERS LIMITED PARTNERSHIP**  
**(An Idaho Limited Partnership)**  
**Notes to Financial Statements – Income Tax Basis**  
**December 31, 2002**  
**(Unaudited)**

**(1) Nature of Business and Significant Accounting Policies**

***Nature of Business***

The Partnership was formed October 21, 1988 to provide management services to Sea Search Armada (SSA), a Cayman Islands limited partnership, for the continuation of the search and recovery of the sunken Spanish galleon, San Jose, off the coast of Colombia. If successful, the Partnership is entitled to an allocation of SSA's portion of the proceeds resulting from the sale of the treasure.

In 1990, the Partnership diversified its interests to include other areas of the world, including the Commonwealth of the Northern Mariana Islands (CNMI) where, in 1993, the Partnership signed a three-year exclusive agreement to search the Northern Mariana Islands territorial waters. In 1995, this agreement was extended for a period of two years. In accordance with the agreement 25% of the artifacts or the proceeds from the sale of artifacts recovered or a combination thereof is due to CNMI.

On September 15, 1997, the Partnership and CNMI entered into a new agreement applicable to the Spanish Galleon, Santa Margarita. This agreement identified IOTA Partners as the finder of the Santa Margarita and grants to IOTA Partners the exclusive right to salvage the Santa Margarita and related artifacts for a term of 3 years or until the recovery and marketing of artifacts are complete and the proceeds from the Santa Margarita are distributed.

In 2002, at the request of IOTA Partners, the CNMI extended the contract for an additional 5 years and allowed a total of 25 years, if needed, to complete the excavation. IOTA expects to complete the project in 2004 barring unforeseen circumstances.

HFP, Inc. is the General Partner of the Partnership.

***Income Tax Basis***

The accompanying financial statements of the Partnership have been prepared on the accrual basis of accounting for federal income tax reporting purposes. Certain costs have been capitalized as inventory for federal income tax reporting purposes.

Because many of the transactions are susceptible to varying interpretations under federal and state income tax laws and regulations, the amounts reported may be subject to change at a later date upon final determination by the taxing authorities.

**IOTA PARTNERS LIMITED PARTNERSHIP**  
**(An Idaho Limited Partnership)**  
**Notes to Financial Statements – Income TaxBasis**  
**December 31, 2002**  
**(Unaudited)**

**(1) Nature of Business and Significant Accounting Policies...Continued**

***Federal Income Tax***

The Partnership is not a tax paying entity and, therefore, no provision has been made in the Balance Sheet for Federal income tax. The partners report their share of income or loss from the Partnership on their respective income tax returns.

***Equipment***

Equipment is stated at cost. Depreciation is provided using the straight line and double declining balance methods over the estimated useful lives of the assets. The estimated useful lives for equipment owned is consistent with the lives allowed by the Internal Revenue Service. Maintenance and repairs are charged to expense when incurred.

**(2) Inventory**

Inventory is comprised of the costs relating to the salvage and excavation of the Santa Margarita. In 2002 the majority of the salvage and excavation costs (\$250,576) were capitalized as inventory costs. The costs that have been capitalized will be offset against future revenue arising from the proceeds of the disposition of assets or rights of the Santa Margarita.

**(3) Accounts Receivable – Sea Search Armada**

The Partnership has advanced funds on behalf of SSA. Eventual collection is dependent upon SSA realizing proceeds from disposition of assets or rights. This receivable has been fully reserved due to the uncertainty relating to SSA's ability to repay the Partnership.

**(4) Payable to an Affiliate**

Payable to an affiliate is comprised of the cash capital contributed by Santa Margarita Recovery Co. L.L.C. (SMRC) and Rota Recovery Company L.L.C. (ROTA) to the joint ventures of IOTA and these companies. The amount of capital contributed to IOTA as of the end of the year by SMRC and ROTA was \$1,323,000 and \$1,785,289 respectively.

See note 6 for a description of the contingent liability related to the above advances.

# **IOTA PARTNES LIMITED PARTNERSHIP**

**(An Idaho Limited Partnership)**

**Notes to Financial Statements – Income Tax Basis**

**December 31, 2002**

**(Unaudited)**

## **(5) Related Party Transactions**

Jack and Edris Harbeston are shareholders and officers of HFP, Inc., the General partner of the Partnership. The General Partner receives reimbursement of services rendered to and expenses incurred on behalf of the Partnership. These expenses include compensation to Mr. Harbeston for services rendered to the Partnership, all of which have been paid or accrued as of December 31, 2002. Mr. Harbeston is currently the Managing Director of Sea Search Armada. For the year ended December 31, 2002, HFP Inc. was paid or is owed a management fee of \$90,000, which is included in the Statement of Operations. As of December 31, 2002 there is a management fee liability on the Balance Sheet of \$320,000.

## **(6) Contingent Obligations**

### ***Consulting Agreements***

IOTA entered into agreements with three persons to assist in the efforts to locate, recover and market artifacts and treasure from shipwrecks in the Mariana Islands. In addition to diving, these independent contractors provided services covering public relations, government liaison, site security, excavation and other services in the CNMI related to IOTA's interest.

These agreements called for monthly cash payments plus contingent deferred compensation. For each \$20,000 of deferred compensation the individuals are entitled to 1/200 of 25% of the net proceeds of the Mariana operation (if any). These agreements call for preferential distributions of proceeds to the providers each time there is cash distributed from the project. As of December 31, 2002 services provided for prior years, under these agreements, were equivalent to contingent compensation of \$157,400, which is equivalent to .984% of the net proceeds of the Mariana operation. No additional deferred compensation was earned in 2002.

On December 1, 1997 and amended in June 1999, IOTA Partners entered into an agreement with a consultant to provide liaison services between IOTA Partners and the CNMI Government. The consultant's primary purpose is to help IOTA Partners obtain the necessary permits from the CNMI (which is separate from the U.S. Army Corps of Engineers) and see to it that there are no wrongful work stoppages by CNMI Agencies. For this service, the consultant will receive one half of one (.5) percent of the net proceeds of the Mariana operation (if any), plus cash payments for special services rendered as requested by the General Partner. The agreement also provides for penalties that will erode or eliminate the income in the event of wrongful work stoppages.

# **IOTA PARTNERS LIMITED PARTNERSHIP**

**(An Idaho Limited Partnership)**

**Notes to Financial Statements – Income Tax Basis**

**December 31, 2002**

**(Unaudited)**

## **(6) Contingent Obligations ... Continued** ***Consulting Agreements ... Continued***

During the 1999 season, IOTA engaged the professional diving services of Pro Marine Technology. The agreement with Pro Marine Technology calls for ; 1) ½ of Pro Marine Technology's services to be deferred into ROTA units which is included in the amount reflected in the footnote titled "Rota Recovery Company L.L.C. and 2) in the event IOTA chooses to sell their 42' catamaran vessel, the right of first refusal to purchase with an offset equivalent to the other ½ of the value of Pro Marine Technology's services which is \$16,000. In the event there are sufficient net proceeds from the Santa Margarita, the \$16,000 contingent liability will be paid with cash and the vessel can be sold at the then market value. In the event there are insufficient net proceeds, the \$16,000 would be deducted from the market value of the vessel if Pro Marine Technology exercises their option to purchase.

### ***Salvage Agreement***

In 1991, the Partnership sold interests in the net proceeds of salvage recovered in the Northern Mariana Territory. The agreements entitle the holders to 2.4% of gross salvage proceeds less allocable expenses.

### ***Santa Margarita Recovery Company, L.L.C.***

On February 5, 1996, a Washington limited Liability Company was formed which is called Santa Margarita Recovery Company, L.L.C. for the sole purpose of providing capital for the salvage of the Santa Margarita. SMRC was capitalized using 1,323 units at \$1,000 each for a total of \$1,323,000. In addition, units were reserved to be issued in accordance with employment agreements with certain personnel. As of December 31, 2001, 211.5 units were issued to certain personnel in lieu of cash compensation of \$211,500. In return for the capital raised and compensation forfeited for units in SMRC, IOTA is contingently obligated to pay the SMRC investors the greater of 5% of the net proceeds (for every \$1.5 million raised and/or compensation forfeited) or 3 times the amount invested, from proceeds of the Santa Margarita.

Should net proceeds, (if any), be insufficient to repay the amounts invested, including the \$1,323,000 amount in the Balance Sheet recorded as payable to affiliate, then such obligation would be forgiven by SMRC.



## **IOTA PARTNERS LIMITED PARTNERSHIP**

**(An Idaho Limited Partnership)**

**Notes to Financial Statements – Income Tax Basis**

**December 31, 2002**

**(Unaudited)**

### **(6) Contingent Obligations ... Continued**

#### ***Rota Recovery Company, L.L.C.***

On February 19, 1999 a Washington Limited Liability Company was formed which is called Rota Recovery Company, L.L.C. (ROTA) for the sole purpose of providing capital for the salvage of the Santa Margarita. ROTA investors committed to \$2,102,634 that consisted of three parts. An initial investment of 50% of the committed amount plus two call notes equal to 25% of the commitment. The two notes were callable by August 31, 1999 and December 31, 1999. For anyone that did not meet their call, significant penalties, in units of ownership, were imposed. The initial investment generated \$1,051,317 and the first call \$499,750. The second call was not made as of December 31, 1999; due to uncertainties with CNMI. In April of 2000, the second call was made which generated an additional \$473,750.

In August, 2001 an additional offering for ROTA units was made to all unit holders who had met their calls applicable to the initial offering at a price of \$1,000 per unit. This offering resulted in the issuance of 198.6 units for the \$198,600 contributed.

In March 2002 an additional offering for ROTA units was made to all those who repurchased to the 2001 offering at an offering price of \$500 per unit. This offering resulted in the issuance of 395.2 units for the \$197,600 contributed. The aggregate cash contributed to ROTA as of December 31, 2002 is \$2,421,017.

In addition to capital raised through sale of units, employees and consultants deferred a portion of their compensation towards the purchase of ROTA units. Units that have the same payout provisions but do not have a call provision or any benefit derived from the IOTA Class A units of IOTA Partners Limited Partnership. As of December 31, 2002, \$596,133 of compensation was deferred toward the purchase of ROTA units at \$1,000 per unit.

For the capital raised by ROTA, the Company will receive the greater of a) three times the amount invested or b) 7 ½ % of the net profits of IOTA from the salvage of the Santa Margarita for every \$2,000,000 raised. Since \$2,421,077 has been raised by ROTA the percentage of net profits would be 9.08%.

In addition, for every \$200,000 of capital raised, IOTA will issue one Class A Unit of Iota Partners Limited Partnership which equates to 12.105 units.

# **IOTA PARTNERS LIMITED PARTNERSHIP**

**(An Idaho Limited Partnership)**

**Notes to Financial Statements – Income Tax Basis**

**December 31, 2002**

**(Unaudited)**

## **(6) Contingent Obligations ... Continued**

Should net proceeds, (if any), from the Santa Margarita, be insufficient to repay the amounts invested in ROTA, all of which is subordinate to SMRC investors, including the \$1,785,289 amount in the Balance Sheet recorded as payable to affiliate, then such obligations would be forgiven by ROTA.

### ***Other Agreements***

A contract was signed February 1, 2001 with Colombian lawyer, Danilo Davis, to pay an additional 10% of any "net proceeds" received from the salvage of the Colombian targets or settlement from the Colombian Government as consideration for continuing legal services rendered since 1989. This represents an increase to 20% from 10% for a) contingent legal fees covering 12 years of continuous litigation in progressively higher Colombian courts, now at the Supreme Court level, b) disbursements, including travel, court fees, etc. over the same term, and c) other expenses, such as consulting fees and representations to the Government of Colombia since 1989. The Colombian litigation anticipates continuing legal fees for at least another year, and are encompassed in the new 20% contingency fee.

In 1997, effective January 1, 1998, IOTA Partners entered into an agreement with the law firm of Baker & Hostetler, Washington D.C. to pay a "success fee" of one (1) percent of any agreed upon settlement or salvageable value collected applicable to our targets off the coast of Colombia. As consideration for this "success fee" they are to lobby our case in Washington D.C. for the U.S. Government to apply pressure on the Colombian Government for SSA's right to its survey anomalies in Colombian territorial waters. In addition, they have agreed to bill IOTA at fifty (50) percent of their standard rates for time spent on behalf of IOTA Partners. As of December 31, 1999 this agreement was still valid; however, the advisor was notified to not expend any time without the written consent of the General Partner of IOTA. At this time it is unlikely that a success fee will be paid due to the inactivity of this law firm during the last four years. At the present time, SSA and IOTA management have no plans to use Baker and Hostetler for lobbying activity; however, should the need for such services arise, the success fee could become payable.

In late 2002 a lawyer employed briefly in 1988 and 1989 as a liaison with SSA's Colombian lawyer (see two paragraphs above) sued SSA, Armada Company, IOTA Partners, Danilo Davis (SSA's Colombian lawyer) and Jack and Edris Harbeston, HFP Inc. (IOTA's General Partner), and all members of the SSA Board of Directors for alleged past due fees totaling several million dollars. There is no merit to the case, which was dismissed by a Virginia Federal Court judge due to lack of jurisdiction. The ruling was appealed by the plaintiff, but upheld by the appellate judge. Upon appeal to the Supreme Court of the United States the Supreme Court refused to accept the case. The plaintiff again filed essentially the same suit in the same district court. IOTA must defend against such nuisance lawsuits or risk losing its assets.

# **IOTA PARTNERS LIMITED PARTNERSHIP**

**(An Idaho Limited Partnership)**

**Notes to Financial Statements – Income Tax Basis**

**December 31, 2002**

**(Unaudited)**

## **(6) Contingent Obligations ... Continued**

### ***Other Agreements ... Continued***

according to SSA's legal counsel. However, plaintiff has informed IOTA's lawyer he plans to appeal to the U.S. Supreme Court. Further, the suit may be brought again in another jurisdiction by the same party, and eventually address the merits, which IOTA management believes would be resolved in IOTA's favor. Nevertheless, such continuing litigation is costly to defend and may erode operational progress in the salvage of IOTA's Santa Margarita prospect in the Marianas.

By agreement, certain professional fees have been incurred and not recorded but will only be paid in the event of the realization of revenues. The monetary value of this contingent liability is \$410,789 (HFP, Inc. \$329,489 and Donald Middlebrook \$81,300).

## **(7) Operating Deficits and Economic Conditions**

Due to a high degree of risk and uncertainty involved in locating and recovering shipwrecks, it is possible the Partnership will not realize revenues sufficient to cover operating and administrative costs. There is the possibility that the value of the artifacts will be insufficient to satisfy all financing agreements, that ownership of the treasure may be at legal risk, that regulatory agencies may revoke our permits or that the Partnership may be unable to obtain additional capital in light of operating losses.

## **(8) Partnership Unit Changes**

The only change in unit ownership during 2002 was a split of one partner's units 55/45 due to a divorce.

**IOTA PARTNERS LIMITED PARTNERSHIP**  
**(An Idaho Limited Partnership)**  
**Notes to Financial Statements – Income Tax Basis**  
**December 31, 2002**  
**(Unaudited)**

**(9) Allocation of Partnership Income and Losses**

Net losses are allocated 99% to the limited partners and 1% to the general partner.

Net income (excluding portions to be distributed and allocated to other entities, i.e. 25% to CNMI - see note 1) is allocated 75% to the limited partners and 25% to the General Partner.

Contingent obligations applicable to the revenue source are considered an expense to determine the net income to be distributed between the limited and general partners (see note 6).

In the event net income is in excess of \$30,000,000, the net income will be distributed to all limited partners pro-rata and simultaneously until the Class A partners have received twice the amount contributed and the Class B partners, in the aggregate, have received \$1,196,236.

Any remaining net income will be allocated 75% to the limited and 25% to the General Partner.

The Limited Partnership Agreement has a more definitive description of allocation of gains or losses.

**(10) Subsequent Events**

In January 2003 a proposal was presented to all IOTA, SMRC, and ROTA investors to raise an additional \$1,250,000 to cover the cost of operations and the marketing of artifacts over the next two years. As of this writing the offering is still being circulated, and has not been fully subscribed.

Although not yet funded for a full year of operation, Management intends to mobilize crew and equipment on Rota in May and June 2003, and continue to excavate the Santa Margarita.

**EXHIBIT E**

**PRO FORMA RETURN PROJECTIONS**

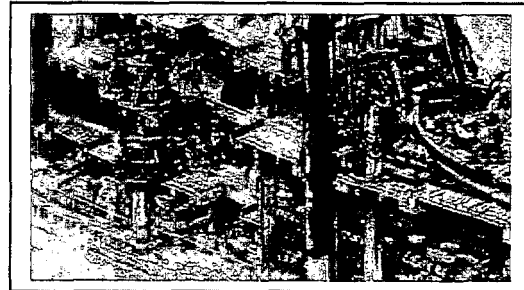
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**EXHIBIT F**

**TYPES OF ARTIFACTS ON THE SANTA MARGARITA**

# CARGO ON THE SANTA MARGARITA: THEN AND NOW

10/14/03



## THEN: the cargo of the *Santa Margarita*

Although manifests cannot be located for Manila galleons of the era of the *Santa Margarita*, its cargo can be estimated from surviving records of Spanish officials, and meticulous inventories by English privateers following the capture of Manila galleons.

As an example of Spanish records describing the typical cargo of a Manila galleon, the president of the *audiencia* at Manila, Antonio De Morga, writing about ten years after the loss of the *Santa Margarita*, described the range of goods which the Spanish were buying in Manila, much of it destined to be cargo on Manila galleons. De Morga's list included fine fabrics, as follows:

*"...raw silk in bundles, of the fineness of two strands, and other silk of coarser quality; fine untwisted silk, white and of all colors, wound in small skeins; quantities of velvets, some plain and some embroidered in all sorts of figures, colors and fashions, others with body of gold and embroidered with gold; woven stuffs and brocades, of gold and silver upon silk of various colors and patterns; quantities of gold and silver thread in skeins; damasks, satins, taffetas, and other cloths of all colors; linen made from grass, called lençesuelo; and white cotton cloth of different kinds and quantities."*

De Morga describes other goods brought by the Chinese to trade in Manila:

*"...musk, benzoin and ivory; many bed ornaments, hangings, coverlets, and tapestries of embroidered velvet; damask and gorvaran tapestries of different shades; tablecloths, cushions and carpets; horse-trappings of the same stuffs, and embroidered with glass beads and seed pearls; also pearls and rubies, sapphires and crystal; metal basins, copper kettles and other copper and cast-iron pots; quantities of all sorts of nails, sheet iron, tin and lead; and saltpeter and gunpowder. ...strings of cornelians and other beads, and precious stones of all colors; pepper and other spices."*

In 1663 the Jesuit historian, Padre Colin, could say of a commerce that was still varied and far-reaching: *"Manila is the equal of any other emporium of our monarchy, for it is the center to which flow the riches of the Orient and the Occident, the silver of Peru and New Spain, the pearls and precious stones of India, the diamonds of Narsinga and Goa, the rubies, sapphires and topazes, and the cinnamon of Ceylon, the pepper of Sumatra and the Javas, the cloves, nutmegs and other spices of the Moluccas and Banda, the fine Persian silks and wool and carpets from Ormuz and Malabar, rich hangings and bed coverings of Bengal, fine camphor of Borneo, balsam and ivory of Abada and Cambodia, the civet of the Lequios, and from Great China silks of all kinds, raw and woven in velvets and figured damasks, taffetas and other cloths of every texture, design and colors, linens, and cotton mantles, gilt-decorated articles,*



*embroideries and porcelains, and other riches and curiosities of great value and esteem, from Japan, amber, varicolored silks, escritiores, boxes and desks of precious woods, lacquered and with curious decorations, and very fine silverware."*

Dr. Eugene Lyon, writing for the National Geographic magazine in 1990 had this description of the cargo of a typical Manila galleon.

*"The Philippines themselves furnished some gold, copra, and coconut-shell products, cotton cloth from Ilocos on Luzon, cotton stockings and petticoats, and gauze made in Cebu. They also produced burlap, rope, and hammocks made of hemp. Skilled Chinese and Filipino artisans in Manila wrought delicate filigree jewelry and gold chains. Craftsmen from India and Ceylon shipped Bengal taffeta, pearls, diamonds, and topazes, carved ivory chests, fine handkerchiefs, intricate woodcarvings, and bedspreads from Surate. From imperial Japan came amber, wheat flour, suits of armor, katanas (samurai swords) knives, saltpeter to make gunpowder, and cabinetwork. Bezoar stones from Asia, taken from the stomachs of ruminant animals, were sent on the Manila galleons. Europeans believed they could signal the presence of poison in wine. The Spice Islands supplied clove, cinnamon, and pepper. From Borneo came sago flour, camphor, ceramic wares, and precious gems. Cambodia, Malaya, Siam, and Cochin China provided musk, civet, and other essences, tin, ivory, rubies, and sapphires.*

*"But the most important trade came from the Chinese mainland. For that reason the Spaniards called the Manila galleon *nao de la China*, 'the ship of China.' Skeins of raw yellow silk, the finest white silk cloth and the most coarse program, richly embroidered satin bedspreads, sumptuous brocades and damasks, linen and satin cloth, costly gold and silver ribbons, painted shawls, and silk stockings arrived from Canton and Amoy on Chinese junks. There were copper kettles, forged ironwork, jade statues, paneled screens, chests of perfumed sandalwood, lacquered writing desks, figurines of carved ivory, delicate paper-and-ivory fans, exquisite Ming dynasty porcelain wares with rich, deep colors, imaginative designs, and quality glazes. European artisans would not unlock the secret of making porcelain until the 18th century. As this Oriental ware, called *chinoiserie*, began to reach the West in quantity, it increasingly influenced European styles. In turn the Chinese began to manufacture specifically for the West: They made altarware and tableware, crucifixes, Christian images, and rosaries. They sent children's toys and virtually every kind of bric-a-brac. They also shipped gold bullion to Manila to be directly exchanged for silver."*

Finally, there is contraband, cargo hidden to escape the King's tax, referred to as "the royal fifth." Contraband would likely be high value in a small volume, such as gold and gemstones, which would survive both the wrecking process and, in the case of the *Santa Margarita*, four hundred years on a windward reef. In a number of documented cases, the value of contraband exceeded the value of the rest of the cargo combined. As to how and where it would be hidden, Dr. Lyon says, *"Stashes of unregistered bullion were made in every part of a ship, in hollowed-out timbers, within bales of cloth, even inside the rinds of cheeses."* In an ironic and gratifying twist to our usual need to pay taxes to the government, IOTA is in the position of collecting taxes, albeit from 1599: consulting historians Drs. Hebb and Earle found correspondence between the Spanish king and his agent in Manila confirming that the King's taxes from the Philippines, in gold coin and bullion, were shipped on the ill fated *Santa Margarita*.

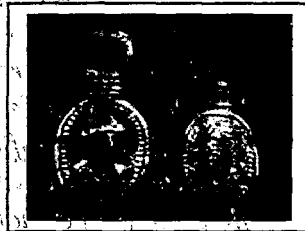
IOTA divers have now recovered from the *Santa Margarita* many of the types of cargo listed above. The discovery process is continuing. After artifacts are excavated (underwater), they are brought to IOTA's laboratory on Rota where they are conserved, restored, and given a second life. IOTA's finds to date are encouraging, both because they are on the lists of de Morga, Colin and Lyon, and because they have survived 400 years on (and in) an episodically violent reef when conventional wisdom said they would not.

## **Now. Types of Santa Margarita Artifacts Found Through 2003:**

**Bone:** several fragments of animal bones, probably remnants of meals.

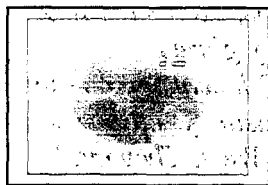


**Bronze:** sword pommels; mortar and pestles; buckles and buckle fragments for shoes and belts; scabbard hangers, some cast with the likenesses of the king and queen, and bearing holes to seat mountings for gem stones, as many as seven gems to a hanger; fragments such as *fleur de lis* which may be part of one or more large grill castings; a religious pendant; a tsuba (Japanese Samurai sword hilt).

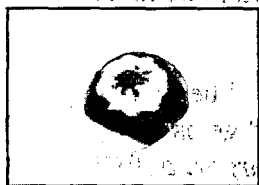
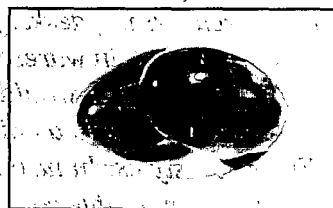


**Cloth:** small patch, 2" square, appears to be woven cotton; two 1" patches clamped into and protected by gilded bronze hanger similar to the preceding picture; a small patch of black silk bearing a hand-painted vine design in gold and red, the colors still bright.

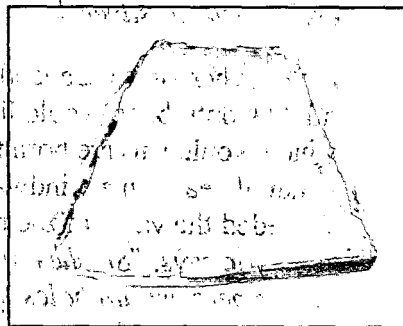
**Copper:** many ingots and tachons (decorative nail heads), and hundreds of fragments of each type, about 100 sheets of very thin rolled copper, each the size and thickness of a book page, in poor condition; various castings including a large abstract design in relief, the subject not yet identified, and two copper beads, once plated or gilded, one gold-copper alloy keyhole frame.



**Gems (all semi-precious):** 19 carnelians, cut as cabochon and as rectangular beads; 160 almandine garnets, all cabochon cut to enhance the red color, ranging from 5 to 30 carats, large uncut stones, crystal, alabaster, petrified wood, jasper.



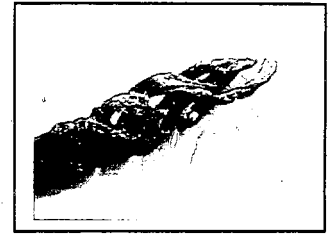
**Glass:** beads (many colors, sizes and facet designs), surfaces are pitted due to galvanic action of the lead with the seawater environment; window panes, 2 shards (the ships galleries were carried away by following waves which also would have destroyed the sterncastle windows; apparently a few shards next to the wood casing survived to Rota). Shards of wine glasses and decanters.



**Gold:** 2 1/2 beads (round, hollow, with gold braid around the string hole), damaged; gold plated or gilded bronze scabbard hanger, gold plated glass beads, gold-copper alloy lock cover, gold alloy small tube, its use not yet known.



**Hemp, jute:** caulking material (some still around the nail holes, the nails long ago oxidized); twine, ropes of one inch or two inch (hawser) size.



**Iron:** ship's spikes; small tachons (decorative nail heads) about 1" across, with nail, and nail head; large (1 + ton) ship's anchor.



**Ivory (cumulative inventory of about 500 pieces):**

1) Bas-relief triptychs (3 piece, folding, sides to middle) of religious subjects:



a) 5" X 3.5": one each of the Virgin Mary and Saint Jerome, complete; one each incomplete but restorable from about 15 fragments. Angels and saints are carved inside the two folding doors protecting the central image; one complete center panel of St. Jerome, a near duplicate of the whole triptych of St. Jerome, one side panel of Saint Philomena, fragmented, but complete.

b) 8" X 6.5" triptychs: three panels, one of St. Joseph and

c) two of Madonna, from 20-40 fragments.



2) Figurines: seated male about 5" high, found in 2001; seated female (appears to be Guan Yin) about 5" high; images of the Christ Child, four 8" to 10" high, and one 4" high; images of Madonna, one 7" high, one 9" high. Halos (4) for the figurines: thinly sliced round "halos" with a hole to fit a supporting post rising from the head of the figure.



3) comb fragments (20+)

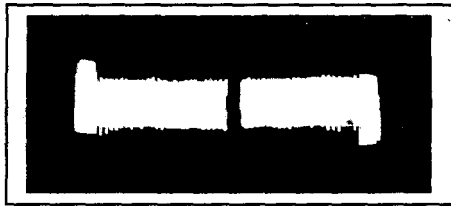
4) flat bead for a necklace (1),

5) die (one dice),

6) chess piece,

7) several small ivory bases, apparently separated from their figurines,

8) many miscellaneous ivory fragments not yet assembled or identified as to purpose.



**Lacquered boxes:** external coating on two fragments of small boxes.

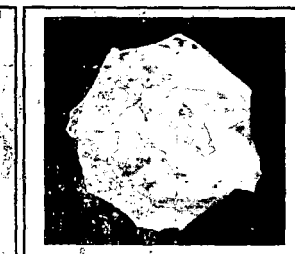
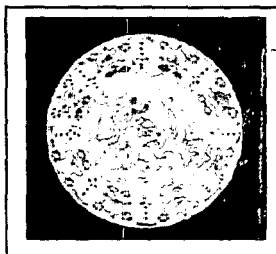
**Lead:** foil and sheeting, some a tin-lead alloy lining wooden boxes to keep tea and spices dry and aromatic during shipment; musket balls; a button form, once covered with cloth; lengths of lead "string" of a size that would lend itself to soldering.

**Jade (green nephrite):** plaque, incised "INRI," the acronym on Christ's cross, translated from Latin as "Jesus of Nazareth; King of the Jews."

**Leather:** 2 fragments found in the clasps of scabbard holders.

**Pewter:** top to round pewter storage container; whole pewter storage container, including top, about 2-quart size.

**Porcelain:** one whole plate, bowl and charger plus many large fragments and thousands of shards of Ming dynasty (Wan Li period) blue and white export porcelain, from at least three different kilns. Forms include serving dishes/bowls, tea cups, rice bowls, ewers, plates, vases, chargers and boxes. The inventory includes many large shards, such as plate and bowl bottoms with a complete base, bearing unique hand painted images in cobalt of various birds (ducks, geese, phoenixes, crows, singing birds) and animals (deer, horses, frogs, fish, grasshopper) people, and scenes. Shards of personal porcelain, probably belonging to wealthy passengers, include two white on white shards, engraved, and a large blue and white food storage jar.



**Pottery:** crew domestic potter; storage pottery shards, including a Spanish olive jar assembled from 43 shards (below).



**Resin:** Large resin (sap) balls of the Almaciga tree (Philippines) used as a type of varnish, or coating for finished wood, such as jewelry boxes. Still usable.

**Shell:** fish hooks, probably preceded the Santa Margarita; Mother of Pearl cutouts for inlays in wooden boxes and escritoirs; windowpane Oyster shell (used as stern castle windows and lamp shades).



**Silver:** 1 silver buckle with stamped or engraved design, and a loop to receive a scabbard hanger, in very good condition; 3 Pieces of Eight (Spanish cob coin), eroded.

**Spices:** peppercorns.

**Stone:** Hammer stones; Chamorro sling stones (spheroidal); Chamorro fishing weights; ballast stones, some granite stones show evidence of being worked as building or cobble stones; black basalt pestle, for food preparation.



**Wood:** ship's hull; cargo boxes (all are frail and soft); packing material, probably for porcelain (appears to be small woody stems or leaves of grass, somewhat crosshatched, but not woven); fragments of two small boxes for personal belongings, covered with red lacquer on the outside. Several pieces of worked wood were found in good condition near the stern, including parts of a small personal box, and parts of the Santa Margarita, such as corner braces.

